Alberta Legislature

Annual Report of the Auditor General 1990–91

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Alberta Legislature

Office of the Auditor General

Mr. R.J. Bogle, MLA
Chairman
Standing Committee on
Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1991, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

Donald D. Salmon

FCA
Auditor General

Edmonton, Alberta
February 12, 1992

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Report for the year ended March 31, 1991

This report is issued pursuant to section 19 of the Auditor General Act. It is my sixth annual report to the Legislative Assembly and the thirteenth such report issued by the Auditor General of Alberta.

The report is for the year ended March 31, 1991. Nevertheless, some of the observations and recommendations it contains resulted from audit work carried out since that date.

Auditor General Act

The Auditor General Act sets out the matters that I must and can report. Most are shortcomings or irregularities such as systems weaknesses, control deficiencies, non-compliance with legislation, and inadequate accounting and reporting practices. In other words, the Act requires my report to concentrate on areas and matters where I think improvements can be made.

Summary conclusion

The scope and extent of audit work completed for 1990-91 is contained in section 2 of this report.

For every financial statement audited, I have issued an Auditor's Report.

For the financial and management control systems examined, apart from the observations reported in section 2 of this report I am satisfied that they contribute to the sound financial administration of the Province.

For those transactions and activities examined, apart from the instances of non-compliance described in this report I am satisfied that they complied, in all significant respects, with relevant legislative authorities. The instances of non-compliance reported herein should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not examined.

I am pleased with the action taken by management in response to many of my previous recommendations. However, the observations reported in section 2 of this report indicate that there is scope for further improvement in the financial administration of the Province.

Crown-controlled organization accountability

In my last report (page 2), I drew the attention of the Legislative Assembly to the accountability of Crown-controlled organizations. I feel that a more appropriate method of disclosure of their financial statements requires consideration.

The Public Accounts Committee considered my recommendation that the Committee consult with the Provincial Treasurer with a view to making a recommendation to the Legislative Assembly on any necessary legislative amendments to achieve appropriate accountability for Crown-controlled organizations, including the disclosure of financial statements. The Committee chose not to take any action on the recommendation.

I have redirected my observations to the Treasury Department and my recommendation can be found on page 12.

General Revenue Fund, Auditor's Report

The General Revenue Fund financial statements are prepared to disclose the Province's operating results in relation to the Province's budget.

In the opening paragraph of my Auditor's Report, I have alerted users of the General Revenue Fund financial statements that a basis of accounting other than generally accepted accounting principles has been used and that the statements do not include all of the government's financial activities. For example, the General Revenue Fund does not include capital expenditures incurred by the Alberta Capital Fund. Thus a more comprehensive view of the financial affairs of the government can be found in the Consolidated Financial Statements.

General Revenue Fund, basis of accounting

Historically, financial statements of all governments were prepared on a cash basis. That is, revenue was reported when received and expenditure was recorded when paid. There are, however, some obvious disadvantages with a cash basis of accounting. For example in financial statements prepared on a cash basis, to the extent that supplies used are not paid for, expenditures are understated. This means that financial statements prepared on a cash basis can misinform and confuse decision makers. In recognition of this problem, governments moved to a modified cash basis. This basis requires that all supplies received prior to the year end but not paid for be included in expenditure.

With effect from April 1, 1990, the basis of accounting for the General Revenue Fund was changed. I am pleased to report that losses on guarantees and indemnities are now charged to expenditure when management determines that the Province will probably be called upon to make payment, and an estimate of the amount of the payment can be made. Previously, losses were recognized on a cash basis. In other words, losses were only recorded when the Province made a payment. I compliment the Treasury Department for making this change since the General Revenue Fund financial statements have been made more useful.

The significance of this change in the basis of accounting is demonstrated by the magnitude of the dollar effect on the General Revenue Fund net debt. The benefit of this change is that users of the current and future financial statements will have access to relevant information on the cost of guarantees and indemnities.

I am encouraged by the progress made this last year in General Revenue Fund financial statement presentation, but caution that there is more that can be done. For example, under the basis of accounting in use, pension obligations are still recorded on a cash basis. As a result, the financial statements do not record a liability for the future pension payments that employees have earned.

The government is consulting with its employees with respect to its proposals for pension reform. These proposals are principally concerned with pension benefits and how such benefits are to be funded. In my opinion, once this process has been concluded, the liability for pensions should be recorded in the General Revenue Fund financial statements. Because of its similarity to pension obligations, the liability for long-term disability costs should be recorded at the same time.

In summary, the Treasury Department has made a significant and progressive change in the basis of accounting for the General Revenue Fund. The change resolves my previous recommendations concerning losses on guarantees and indemnities, and the Province's financial assistance to credit unions. I anticipate that once the discussions on pension reform are concluded, the Department will resolve the recording of the pension and long-term disability costs and liabilities.

Section 2

Section 2 of the report describes the work of my Office for 1990-91. It contains the more significant audit observations and recommendations that were reported to management as a result of that work. When determining significance, I take into account the nature and materiality of the matter relative to the individual entity and the government as a whole.

The recommendations that I consider most significant and which particularly warrant the attention of the Legislative Assembly are numbered and shown on a shaded background.

Section 3

Section 3 of the report describes the reporting process, contains a summary of the audit report reservations issued for 1990-91, includes my section 18 report, and discusses the audit of the Public Accounts. The section also has a brief commentary on the Province's consolidation methods, and includes consolidated operating statistics.

Section 4

Section 4 presents my legislative mandate and the mission of the Audit Office. It includes an explanation of accounting principles, auditing standards and the Office's audit approach. Finally, the organization of the Audit Office is described.

Acknowledgements

Pursuant to section 19(1)(b) of the Auditor General Act, I am pleased to report that in carrying out the work of my Office I received all the information, reports and explanations that were required.

I am pleased to acknowledge with gratitude the excellent co-operation extended to my staff by management of departments, agencies, and other organizations audited.

Furthermore, I wish to express sincere appreciation for the efforts of my staff. Their contributions have culminated in the completion of this annual report.

Donald D. Salmon

FCA
Auditor General

Edmonton, Alberta
January 22, 1992

Legislative Assembly Office
year ended March 31, 1991

In addition to the annual financial audit, my staff completed an examination of the systems used for the tabling of documents in the Legislative Assembly.

Release of documents prior to tabling

Delays in tabling documents diminish the relevance of information conveyed to the Legislature.

Various Alberta statutes require certain Members of the Legislative Assembly (normally in their capacities as Ministers) to table annual reports and financial statements during sittings of the Legislative Assembly. If the Legislative Assembly is not sitting, the tabling of documents is delayed until the session resumes. Therefore, the greater the length of time between sittings, the greater the delay in making the information available for use.

It is reasonable to conclude that any delay in release can affect the usefulness of the information. Occasionally, Members have made reports and documents available to the public before they could be tabled. Such a practice, however, may not provide all Members with equal access to information.

The impact of tabling delays could be reduced if Members were permitted to deposit documents with the Clerk of the Legislative Assembly when the Assembly is not sitting. The Clerk could then make these documents available to Members and the general public pending formal tabling as required by statute. This procedure would require an amendment to the Standing Orders.

In a management letter to the Clerk of the Legislative Assembly at the conclusion of the audit, it was recommended that the Legislative Assembly Office seek amendments to the Standing Orders to improve procedures used for the release of documents prior to their tabling in the Legislature.

Documents tabled

It is not easy for a Member to determine whether information which is required to be tabled, has been tabled.

Documents tabled are recorded in the Journals of the Legislative Assembly. There is also a separate record of tabling requirements organized by statute and by Member. Therefore, Members or their staff need to search through the Journals prepared for each session in order to determine whether documents required to be tabled were in fact tabled.

As the Legislative Assembly Office prepares both the Journals and the record of tabling requirements, it could match tabling requirements with documents tabled, and report this information to the Members.

In a management letter to the Clerk of the Legislative Assembly at the conclusion of the audit, it was recommended that the Legislative Assembly Office match tabling requirements with documents tabled thereby providing information about documents tabled and not tabled.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1991:

Office of the Chief Electoral Officer
Office of the Ombudsman

The financial statement of the **Office of the Auditor General** for the year ended March 31, 1991, was audited by a firm of Chartered Accountants appointed by the Standing Committee on Legislative Offices. The financial statement is published in section 8 of the Public Accounts of the Province.

Consolidated Financial Statements of the Province
year ended March 31, 1991

The Province's 1990-91 consolidated financial statements are published in the Public Accounts. The notes to the consolidated financial statements explain the accounting policies and reporting practices employed in preparing them. Page 112 of this report contains commentary on the consolidation methods used, together with selected consolidated operating statistics.

I was able to report without reservation on the Province's consolidated financial statements for the year ended March 31, 1991. My report on the consolidated financial statements is reproduced on page 111 of this report.

Most of the figures that make up the Province's consolidated financial statements are audited during the annual audits of the various departments, funds and agencies that are consolidated. Observations and recommendations arising from those audits are reported in this section of the report.

General Revenue Fund
year ended March 31, 1991

The financial statements of the General Revenue Fund report the revenues and expenditures of the twenty-four government departments and the Legislative Assembly, including its three Legislative Officers, together with the financial assets and liabilities they administer.

I was able to report without reservation on the General Revenue Fund financial statements for the year ended March 31, 1991.

Audit activities undertaken for each department and legislative office are reported on pages 4 to 108.

Pension liabilities

The Province continues to exclude from the reported net debt its full liability for pension obligations.

This liability arises from six major pension plans administered by the Province, and a plan operated under the Teachers' Retirement Fund Act which is guaranteed by the Province.

In my 1989-90 annual report (page 8), I recommended that the Provincial Treasurer again consider reflecting as a liability in the financial statements of the Province the unrecorded liability arising from the various pension plans administered and/or guaranteed by the Province.

In my 1989-90 annual report (page 8), I reported that the total estimated unrecorded pension liability at March 31, 1990 was $9 billion. Since then, new actuarial valuations were prepared for the six major plans using revised demographic and economic assumptions at March 31, 1990, as disclosed in Note 4 to the financial statements of the General Revenue

Fund for the year ended March 31, 1991. As a result, the unrecorded pension liability arising from the six major pension plans changed from $5.7 billion to $3.6 billion. The most significant components giving rise to the change are the revised economic assumptions and the reduction in assumed cost-of-living benefits to pensioners. The assumed rate of return on investments has been increased from 2.5% to 3.5% over the level of price inflation, and the assumed cost-of-living benefits have been reduced from 75% to 60% of the annual increase in the Consumer Price Index.

Further, the unrecorded pension liability arising from the Teachers' Retirement Fund, which I reported last year at $3.3 billion, is now reported as $2.4 billion. The change in the reported unrecorded liability is due principally to an actuarial valuation at August 31, 1989, which used actuarial assumptions similar to those used in the valuation of the six major plans as referred to in the preceding paragraph. An actuarial projection of the Fund based on this valuation was not done to March 31, 1990, therefore, for this year's report, I have had to use information as at August 31, 1989.

Based on the latest available and comparable valuations, the amount of the unrecorded pension liability has been revised to $6 billion as shown below.

	(millions of dollars)
Actuary's valuations of the liability of the six major plans at March 31, 1990	$ 8,800
Less: Market value of Pension Fund net assets at March 31, 1990	5,200
	3,600
Actuary's valuation of the unfunded accrued pension liability of the Teachers' Retirement Fund at August 31, 1989	2,400
Total unrecorded pension liability	$ 6,000

It should be noted that projections to March 31, 1991 are not available.

Documents called *Proposals for Pension Reform* on five of the major pension plans were issued by the Provincial Treasurer in July 1991. Since that time, considerable attention has been focussed on the extent of the Province's liability for pension obligations and proposals for funding this liability. The Provincial Treasurer's meetings with pension boards and other groups representing the several stakeholders are positive steps towards resolving the funding problem.

In November 1991, the Provincial Treasurer issued a document called *Public Sector Pension Plans - Responding to your questions* which provided further information on pension reform. The document states that certain information included in it has been audited by the Auditor General

of Alberta. Unfortunately, the audited Schedule of Estimated Assets for Five Provincial Pension Plans at March 31, 1990 and 1981 was included in the document without the accompanying notes and my Auditor's Report. I have, therefore, reproduced the complete document on pages 133 to 136 of this report.

In conjunction with the Provincial Treasurer's current activities to obtain a solution to the problem of funding the liability for pension obligations, I encourage the Provincial Treasurer to also work towards a solution to the recording of the pension liability in the financial statements.

In a management letter to the Deputy Provincial Treasurer, Management and Control, I again made the following recommendation:

> General Revenue Fund - Pension liability
>
> **Recommendation No. 1**
>
> It is recommended that the Provincial Treasurer include the unrecorded liability for pension obligations arising from the various pension plans administered and/or guaranteed by the Province as a liability in the General Revenue Fund financial statements.

Long-term disability costs

The Province does not include the liabilities of its long-term disability plans in the General Revenue Fund.

The liabilities of these plans, at any point in time, are the value of the benefits conferred on employees. In other words, the cost of the disability coverage in place for employees should be recorded each year based on the best estimate of payments likely to be made.

Based on information received from the Department of Labour, the estimate of the unrecorded liability for those employees already receiving benefits amounted to $59 million at March 31, 1991.

In addition to the full cost for disabled employees who are entitled to benefits, there is the cost for non-disabled employees who are entitled to benefits if a disability occurs. For the latter group, the annual cost arising from present service could be estimated based on past experience. The Treasury Department would probably require technical assistance from an actuary to estimate this annual cost.

In my 1989-90 report (page 9), I recommended that the Treasury Department record the costs and liabilities of the long-term disability plans in the financial statements of the General Revenue Fund. My concern with long-term disability costs and liabilities is similar to my concerns with pension liabilities. Therefore, it is my expectation that this matter will be dealt with at the same time that pension liabilities are recognized.

In a management letter to the Deputy Provincial Treasurer, Management and Control, I made the following recommendation:

General Revenue Fund - Long-term disability costs

Recommendation No. 2

It is recommended that the Treasury Department record in the financial statements of the General Revenue Fund, the full costs and related liabilities of the Province's long-term disability plans.

Credit unions

In my 1989-90 annual report (page 9), I commented on the details of a plan which had been established by the Province to provide financial assistance to credit unions. My concern was that the Province continued to exclude the total cost and liability, arising from the Province's financial assistance to credit unions, from the General Revenue Fund financial statements.

I have not repeated my recommendation because the General Revenue Fund financial statements now reflect a liability with respect to the interest to be paid on $335 million of debentures issued by the Province to the credit unions. Details of the liability are shown in Schedule 2.10 to the General Revenue Fund financial statements.

Losses on Crown guarantees and indemnities

In my previous report (page 12), I recommended that the Treasury Department record a loss when a liability arising from a guarantee or indemnity has been incurred. This recommendation was made because losses were recorded in the General Revenue Fund financial statements when a payment for the loss was made, rather than when the loss was incurred.

I am pleased to report that there has been a change in the basis of accounting for losses on Crown guarantees and indemnities in the financial statements for the year ended March 31, 1991. Therefore, I have not repeated my previous recommendation.

Effective April 1, 1990, losses on guarantees and indemnities are charged to expenditure - valuation adjustments and provisions when management determines that the Province will probably be called upon to make payment, and an estimate of the amount of the payment can be made.

Crown-Controlled Organizations

Crown-controlled organizations are defined by section 1(b) of the Auditor General Act. Those operating during 1990-91 were:

Gainers Inc.
Northern Steel Inc.
North West Trust Company
354713 Alberta Ltd.

The Province's control of Gainers Inc. arose as a result of a master agreement, entered into with the parent of Gainers Inc. on September 25, 1987, to provide a term loan facility and loan guarantee on a promissory note. Certain conditions of the agreement were not met and the Province took control of Gainers Inc. on October 6, 1989.

The Province's control of Northern Steel Inc. arose on June 12, 1989 as a result of an agreement with the major shareholder of the company. Under that agreement, the Province provided further financial support to supplement a previous loan and two prior guarantees. The company had significant operating losses and as a result had defaulted on a loan and a lease guaranteed by the Province.

The Province's investment in North West Trust Company and 354713 Alberta Ltd. arose from a rehabilitation agreement concluded by the companies, the Province and the Canada Deposit Insurance Corporation, effective January 1, 1987. The agreement and investment provided North West Trust Company with an improved capital base and a framework to return it to viable operations. Under the arrangement, North West Trust Company has the right, subject to a maximum limit of $50 million, to cause 354713 Alberta Ltd. to purchase, at book value, assets which are not providing a satisfactory return. These assets are to be managed, developed, marketed and sold in due course.

If the accounts of a Crown-controlled organization are audited by a person other than the Auditor General, then that person is obliged to comply with section 16 of the Auditor General Act and provide the Auditor General with certain information.

In accordance with section 16 of the Act, the firms that performed the audit of Gainers Inc. for the year ended September 29, 1990, the audits of Northern Steel Inc. and North West Trust Company for the year ended December 31, 1990, and the audit of 354713 Alberta Ltd. for the year ended March 31, 1991, delivered to the Auditor General copies of their reports to management and the audited financial statements. Also, the audit firms provided access to their working papers and full explanations of the extent of the audit work and the results obtained from that work.

The following matters have come to my attention during the reviews of the audit firms' working papers and warrant, in my opinion, the attention of the Legislative Assembly.

Gainers Inc.

The auditors' report on the consolidated financial statements of Gainers Inc. contained a reservation of opinion on a $12 million asset called "Investment in and amounts due from former affiliates."

Specifically, the auditors stated that as a result of the change in ownership of the company on October 6, 1989, they were unable to obtain any financial information to support the carrying value of the investment in and amounts due from former affiliates. As a result, they were not able to determine whether any adjustments might be necessary to that carrying value and consequently to the financial statements.

The audited financial statements indicate that the company has incurred substantial operating losses and had a working capital deficiency and deficit as at September 29, 1990. The statements also indicate that they do not include any adjustment which would be necessary should the Company be unable to continue as a going concern.

Northern Steel Inc.

The financial statements at December 31, 1990 indicated that the company has incurred cash flow problems over the past several years and had a deficit.

In October 1991, the company was placed into receivership.

354713 Alberta Ltd.

The financial statements indicate that the company had a deficit at March 31, 1991.

The Provincial Treasurer made the previous year's financial statements available to the Legislature in June 1991.

Crown-controlled organization accountability

The accountability of Crown-controlled organizations needs to be reviewed. In particular, a more appropriate method of disclosure of their financial statements requires consideration. I discussed this matter in the Introductory Comments to my previous report (page 2).

Crown-controlled organizations are not referred to in the Financial Administration Act and their financial statements are not included in the Public Accounts of the Province.

Crown-controlled organizations are defined by section 1(b) of the Auditor General Act and include corporations, more than 50% but less than 100% of whose voting shares are owned by the Crown.

My mandate to report on Crown-controlled organizations is contained in section 19 of the Auditor General Act. Section 19(3) permits me to comment on any matter contained in the financial statements of a Crown-controlled organization in the same way that I am permitted to comment on the financial statements of a Provincial agency. The same section also permits me to include in my annual report, the financial statements of organizations on which I am reporting.

In the case of Provincial agency accountability, I am commenting on financial statements in the Public Accounts and financial statements that have been tabled in the Legislative Assembly. For a Crown-controlled

organization such as North West Trust Company, I would be commenting on financial statements made public through distribution to all shareholders. However, with respect to other Crown-controlled organizations, I could be commenting in my annual report on financial statements that had not been made public.

Although my Act permits me to include in my annual report financial statements that have not been made public, I would do this only if the matters reported in the financial statements were considered to be significant, and if it were not possible to achieve a more appropriate method of disclosure. I believe that it is properly the responsibility of management to make its financial statements available and to be accountable for its use of public resources.

In a management letter to the Deputy Provincial Treasurer, Management and Control, I made the following recommendation:

> Crown-controlled Organizations - Accountability
>
> **Recommendation No. 3**
>
> It is recommended that the Treasury Department seek the necessary legislative amendments to achieve appropriate accountability for Crown-controlled organizations, including the disclosure of financial statements.

Monitoring Crown-controlled organizations

In my 1989-90 report (page 16), I recommended that the Treasury Department document the procedures for monitoring the activities of each Crown-controlled organization.

The Treasury Department has now documented its procedures for monitoring some, but not all, of the organizations. In future audits, my staff will review the progress made to complete the documentation for all Crown-controlled organizations. Consequently, I have not repeated my previous recommendation.

Treasury Department
year ended March 31, 1991

In addition to the annual financial audit, my staff completed an examination of the administration of loan guarantees by the Loans and Guarantees Division. This work included an examination of the Division's new database system.

Evaluating and monitoring specific loan guarantees

The Treasury Department can improve the effectiveness of its reviews of specific loan guarantee proposals and its monitoring of loans guaranteed by the Province.

Specific loan guarantees are, for the most part, those guarantees where the borrower is named in the Loans by Financial Institutions section of Schedule 2.19 to the General Revenue Fund financial statements. Guarantees arising from programs under the Farm Credit Stability Fund and the Students Loan Guarantee Acts, for example, are not considered to be specific loan guarantees. The outstanding balance of specific loans guaranteed by the Province was approximately $940 million at March 31, 1991.

Although the Treasury Department does not make final decisions about specific loan guarantee proposals, it is responsible for providing the Provincial Treasurer with an independent evaluation of proposals. These proposals normally originate in other departments. The Treasury Department is also responsible for monitoring specific loans guaranteed by the Province.

Evaluation of proposals

All of the information required by the Department's financial analysts to make timely and reasonable evaluations of guarantee proposals for the Provincial Treasurer is not always provided by other departments. For example, proposals received from departments are sometimes inadequately supported because they lack business plans, operating budgets, and financial statements. As a result, in these situations financial analysts must make comments and recommendations based on incomplete information.

If the Treasury Department were to establish the minimum information to be supplied by departments when submitting proposals, the financial analysts would be able to perform more effective reviews.

Monitoring

Information in guarantee files is not always sufficient to demonstrate that existing guaranteed loans are being adequately monitored by financial analysts. In a sample of files reviewed, instances were noted where financial statements of organizations with guaranteed loans, which should have been submitted by the borrower, were not available. In one instance, the file contained no evidence of action taken or proposed by the financial analyst when the actual results of operations of the borrower differed adversely from those in the guarantee proposal.

The Department should document the procedures to be applied by financial analysts in monitoring guarantees. By identifying the information to be gathered, the procedures to be performed, and the contents of reports, management should be able to receive more objective and consistent information on the Province's exposure to possible losses arising from guarantees.

In a management letter to the Deputy Provincial Treasurer, Finance and Revenue at the conclusion of the audit, I made the following recommendation:

> Treasury Department - Evaluating and monitoring specific loan guarantees
>
> **Recommendation No. 4**
>
> It is recommended that the Treasury Department specify the minimum information to be supplied by other departments to support specific loan guarantee proposals. It is also recommended that the Treasury Department assist its financial analysts by documenting procedures for monitoring specific loans guaranteed by the Province.

Alberta Royalty Tax Credits

There is no link between royalties received by the Province and Alberta royalty tax credits given by the Province. This link is important because the credits are based on the amount of royalties received. Without this control, the Province does not have assurance that the amount of credits provided is correct.

Annual royalty tax credits are disclosed as a deduction from budgetary revenue. The cost of the credits in 1990-91 was $300 million. In the past five years, the credits have amounted to $2 billion. Of the 1990-91 annual amount, $220 million was paid directly to beneficial owners of oil and gas wells and $80 million was deducted from taxes that would otherwise have been payable to the Province.

My audit evidence indicates that some royalty tax claimants are submitting inappropriate claims. As a result of the activities of the Audit Division of the Treasury Department's Corporate Tax Administration, 70% of the audited tax credit claims which the Division identified as high risk, were changed. Recoveries by Corporate Tax Administration as a result of these activities amounted to $10 million in 1990-91.

The Alberta Royalty Tax Credits program is complex. Crown Royalty is collected by the Department of Energy from the operators of oil wells and/or gas plants. However, tax credits are claimed by corporations, trusts and individuals who are the beneficial owners of producing properties. Not all beneficial owners are operators. Due to the complexities of the program, it is very difficult to link the royalties paid to the Province with the royalty tax credits claimed by the beneficial owners.

The management systems in Corporate Tax Administration do not provide all of the information required to control claims resulting from the Alberta

Royalty Tax Credits program. A fundamental problem is that the Department of Energy's systems do not provide information on all beneficial owners and certain types of resource properties which Corporate Tax Administration needs to adequately review claims.

In a management letter to the Deputy Provincial Treasurer, Finance and Revenue at the conclusion of the audit, I made the following recommendation:

> Treasury Department - Alberta Royalty Tax Credits
>
> **Recommendation No. 5**
>
> It is recommended that the Treasury Department establish a link between royalties received and credits given by the Province in order to have assurance that the amount of credits provided is correct.

In my view, it is probable that this recommendation can only be achieved if the complexities of the program are reduced. However, greater control might be achieved if the Department of Energy could provide the needed information.

Revenue Administration Division, field audits of fuel tax

Field audits of fuel tax are not as effective as they should be.

The Division began conducting its first field audits of fuel tax accounting systems in 1988. The purpose of those audits was to assist fuel companies to develop their systems to permit compliance with the tax requirements, and to allow the Division to become more familiar with the business practices and methodologies used by these taxpayers.

The knowledge which has been acquired should now be used to develop audit methodologies and procedures which focus on the greatest risk of error in fuel tax calculations and remittances.

By focussing on audit risks early in the planning stage, the possibility of detecting errors in reported fuel tax revenue can be maximized. Risk assessment also facilitates the selection of the most economical and cost beneficial audit procedures for each particular audit. This is especially important because of the high degree of reliance the Division places on its audits of fuel tax revenues, which were approximately $390 million in 1990-91.

In a management letter to the Deputy Provincial Treasurer, Finance and Revenue at the conclusion of the audit, it was recommended that the Treasury Department's Revenue Administration Division increase the effectiveness of its fuel tax audits by incorporating an assessment of risks when examining the accounting systems and records of organizations which collect and remit fuel tax.

Revenue Administration Division, identification of outstanding tax returns

The Division does not determine whether all identified payers of hotel tax and liquid petroleum gas tax have in fact filed returns and consequently paid the taxes due.

The 1990-91 revenue from hotel tax and liquid petroleum gas tax was $24 million and $14 million, respectively. Although Revenue Administration can identify those who should pay these taxes, the Division does not determine whether they have filed returns and paid taxes due.

In a management letter to the Deputy Provincial Treasurer, Finance and Revenue at the conclusion of the audit, it was recommended that the Revenue Administration Division determine whether all hotel tax and liquid petroleum gas tax due has been paid.

The Division plans to eliminate this weakness in its systems by September 1992. The progress of this initiative will be examined during the next audit.

Revenue Administration Division, financial controls

Reconciliations of information in tax returns about transfers of fuel and tobacco between taxpayers are not always completed. As a result, there is a risk of lost revenue.

It was noted that one taxpayer had deducted from tax returns, over a period of several months, approximately one billion litres of fuel as being non-taxable because fuel had been transferred to other taxpayers. However, the Division did not check that these other taxpayers had in fact included the fuel as taxable product on their tax returns. The fuel tax on the transfer amounted to $70 million. Also, information on tax returns for fuel and tobacco products imported into Alberta was not reconciled with information received from the exporting jurisdictions. I have been informed that management will resolve these concerns.

In a management letter to the Deputy Provincial Treasurer, Finance and Revenue at the conclusion of the audit, it was recommended that the Treasury Department's Revenue Administration Division improve its financial controls to minimize the risk of lost revenue.

Pensions Administration

Control over the completeness and accuracy of information entered into the contributor system is inadequate.

The system accumulates data needed for the calculation of pensions to contributors when they retire. It includes information on participating contributors, amounts contributed, pensionable earnings, and periods of service gathered during the period of their employment. There are currently 150,000 contributors under the six major pension plans administered by the Province. The Treasury Department needs to ensure that data added to the system is complete and accurate so that in time it will be able to rely entirely on the system. At present, this is not possible because past data is not completely reliable.

One of the key controls to ensure that the information added to the system is complete and accurate is the auditors' report accompanying the annual contributor information which employers have to submit. This control is

not operating satisfactorily. Fifty of the approximately 570 employer organizations which should have submitted audited reports on contributor information by July 1990 had not done so at October 1991.

In a management letter to the Deputy Provincial Treasurer, Management and Control at the conclusion of the audit, it was recommended that the Treasury Department improve controls over the completeness and accuracy of information entered into the pensions administration contributor system.

Alberta Heritage Savings Trust Fund
year ended March 31, 1991

Reservation of opinion

The Auditor's Report on the financial statements of the Heritage Fund for the year ended March 31, 1991, contained a reservation of opinion as follows:

> "The practice of including deemed assets and deemed equity represented by deemed assets on the balance sheet is not appropriate nor is the presentation in accordance with generally accepted accounting principles. Deemed assets represent amounts expended which are not recoverable by the Fund and where assets do exist, they belong to other organizations. Although it has been interpreted by management that the Alberta Heritage Savings Trust Fund Act requires the disclosure of deemed assets on the balance sheet, the financial position of the Fund would be better understood if the deemed assets and deemed equity represented by deemed assets, which both amount to $3,197,338,000 were not included."

This is the fifth consecutive year that it was necessary to issue a reservation of opinion. During this period, I believe that the public's understanding of the financial position of the Fund has improved. However, although the total of assets and the total of deemed assets are shown separately on the balance sheet and are not added together, some people continue to add the two amounts and quote the sum erroneously as being the total assets of the Fund. Obviously, there is still confusion about the Fund's financial position. In my view, there will always be confusion as long as the deemed assets remain on the balance sheet. My reservation of opinion is no substitute for proper reporting.

I had expected a resolution of the problem by now. I believe there are ways to satisfy both the requirements of the Provincial Treasurer and this Office. For example, deemed assets could be removed from the Fund's balance sheet and replaced with a footnote to the balance sheet. The footnote would draw attention to the schedule in the financial statements which provides details of the cumulative capital projects expenditures, referred to in legislation as deemed assets.

Under the circumstances, until my concern is resolved, I have no choice but to continue to issue a reservation of opinion.

Provincial Judges and Masters in Chambers Pension Fund
year ended March 31, 1991

Creation of a regulated fund without authority

The Provincial Judges and Masters in Chambers Pension Fund has been established without legislative authority.

The Fund was established in September 1988 with a $13 million transfer from the Pension Fund. The transfer comprised accumulated employee and employer contributions for approximately 100 individuals.

From that time, it has received contributions from the Province and has been used to pay pension benefits to retired Provincial Judges and Masters in Chambers.

The Fund was purportedly created pursuant to the Provincial Judges and Masters in Chambers Pension Plan Regulation and two Treasury Board directives. I have received legal advice that the Regulation and directives conflict with section 19(1) of the Financial Administration Act and section 126 of the Constitution Act, 1867 to the extent that they purport to create a fund separate from the General Revenue Fund.

The Fund could be made legal by express statutory authority from the Legislature or by a Treasury Board Directive under section 93 of the Financial Administration Act. This section, which allows the establishment of "benefit funds," did not exist at the time the Fund was created.

In a management letter to the Deputy Provincial Treasurer, Management and Control at the conclusion of the audit, I made the following recommendation:

> Provincial Judges and Masters in Chambers Pension Fund - Creation of a regulated fund without authority
>
> **Recommendation No. 6**
>
> It is recommended that the Treasury Department seek express legislative authority for the Provincial Judges and Masters in Chambers Pension Fund.

Other regulated funds

A Treasury Board Directive, referred to as the "Public Money (Non-statutory) in Regulated Funds Directive," incorrectly used as part of the authority to establish the Provincial Judges and Masters in Chambers Pension Fund, has also been improperly cited as authority to establish a large number of regulated funds in past years.

In my annual reports for 1987-88 and 1988-89 (page 9), I reported that the Government of Alberta Dental Plan Trust and the Government Employees' Group Extended Medical Benefits Plan Trust were invalidly constituted. In 1989, the Financial Administration Act was amended to authorize the Treasury Board to establish benefit funds for the purpose of providing

benefits to plan participants. However the Treasury Board has not yet issued the necessary directives.

Based on the advice of my legal counsel, I am concerned that many of the approximately 90 funds established under the Public Money (Non-statutory) in Regulated Funds Directive were also improperly created.

In a management letter to the Deputy Provincial Treasurer, Management and Control, it was recommended that the Treasury Department review the authority for regulated funds established under the Public Money (Non-statutory) in Regulated Funds Directive to determine which funds need specific legislative authority.

Treasury Branches Deposits Fund
year ended March 31, 1991

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by management to identify, report and manage problem loans.

- An examination of the systems that management uses and plans to use, to measure the profits attributable to branches, customers and products.

Connected loans and contingent liabilities

In my last two annual reports (1989-90 page 21), I recommended that Treasury Branches improve its system for recording and providing ready access to information on loans and commitments that share common collateral or earnings. I also recommended previously that Treasury Branches improve its system for recording, and providing credit personnel with faster access to information on loan guarantees and letters of credit.

Management has responded that it is considering recording connected loan information on an automated system linked to Synergy, Treasury Branches' computerized management information and accounting system. Management has also agreed to examine the feasibility of including loan guarantees and letters of credit on Synergy.

Pending the formulation of more definite plans, it was again recommended in a management letter to the Superintendent at the conclusion of the audit, that Treasury Branches improve its system for recording and providing ready access to information on loans and commitments that share common collateral or earnings, and on loan guarantees and letters of credit.

Non-accrual loans

The system used by Treasury Branches to re-classify loans as "non-accrual" is still deficient in certain respects.

In my last annual report, I noted that there was still scope for further improvement with regards to the re-classification of loans as "non-accrual." Treasury Branches' policy is to classify loans as non-accrual when doubt arises as to the collectibility of any portion of them. When a loan is classified as non-accrual, all uncollected interest is removed from income

in the current year. In addition, any subsequent cash receipts are first credited against principal until any provision that has been set up against the loan is no longer required.

Instances have occurred, however, where the loans were not classified as non-accrual, yet borrowers were experiencing difficulties maintaining their loan repayment schedules. In some cases, loans were not classified as non-accrual even though a provision had previously been set up against them and the borrowers' ability to repay had apparently not improved. Although none of these instances have resulted in Treasury Branches' net income being reported inaccurately, it can result in the misstatement of certain other information reported in the financial statements.

Further, while Treasury Branches does have a manual system for identifying problem loans, classifying all doubtful loans as non-accrual as soon as circumstances warrant would help in the overall evaluation of the quality of the loan portfolio.

In a management letter to the Superintendent at the conclusion of the audit, it was again recommended that loans be classified as non-accrual as soon as doubt exists as to the collection of principal or interest. It was also recommended that guidelines be established to determine when loans, which are covered by any loan loss provision, should be properly classified as non-accrual.

Other entities

Financial audits of the following were also completed:

Alberta Capital Fund - year ended March 31, 1991
Alberta Heritage Foundation for Medical Research Endowment Fund - year ended March 31, 1991
Alberta Heritage Scholarship Fund - year ended March 31, 1991
Alberta Municipal Financing Corporation - year ended December 31, 1990
Alberta Provincial Corporation Loan Fund - year ended March 31, 1991
Alberta Risk Management Fund - year ended March 31, 1991
Canadian Pooled Equities Fund - year ended March 31, 1991
Credit Union Deposit Guarantee Corporation - year ended December 31, 1990
Consolidated Cash Investment Trust Fund - year ended March 31, 1991
Farm Credit Stability Fund - year ended March 31, 1991
Land Purchase Fund - year ended March 31, 1991
Pension Fund - year ended March 31, 1991
S C Financial Ltd. - year ended December 31, 1990
S C Properties Ltd. - fifteen months ended March 31, 1991
Small Business Term Assistance Fund - year ended March 31, 1991
Treasury Revolving Fund - year ended March 31, 1991
United States Pooled Equities Fund - year ended March 31, 1991

Utility Companies Income Tax Rebates Fund - year ended March 31, 1991
391760 Alberta Ltd. - year ended March 31, 1991
413553 Alberta Ltd. - period ended October 22, 1990

Trust Funds

Trust funds under Provincial administration are not included in the Province's consolidated financial statements because the Province has no equity in them. At March 31, 1991 trust funds under administration amounted to $1,251 million. Summarized information of the funds making up this amount is provided in Note 9 to the consolidated financial statements.

Trust funds for which the Audit Office audits separate financial statements are reported on in section 2 of this report. The following trust funds were treated as a group of similar entities and sufficient audit work was performed on the group to support its inclusion in Note 9 to the consolidated financial statements at March 31, 1991:

ADVANCED EDUCATION:

Advanced Education Endowment Funds
John Joseph Collett Memorial Scholarship Fund
E.R. Pendleton Estate Trust

AGRICULTURE:

Thomas Caryk Memorial Scholarship Fund
Claude Gallinger Memorial Trust
National Tripartite Price Stabilization Program Trust Account
Pennington Memorial Scholarship Fund
Stanley Shulhan Memorial Scholarship Fund
Wheat Board Money Trust
Woodgrove Unifarm Local Scholarship Fund
Wetaskiwin 4-H District Council Scholarship Fund

ATTORNEY GENERAL:

Land Titles Offices Trust
Maintenance Enforcement Trust
Various Courts and Sheriff's Offices Trust
Public Trustee - Estates and Beneficiaries Trust Accounts
Personal Property Registry Trust
Solicitors Trust Account

CONSUMER AND CORPORATE AFFAIRS:

Collection Practices Act Trust
Debtors Assistance Trust
Insurance Companies Trust
Orderly Payment of Debts
Securities Act Trust

CULTURE AND MULTICULTURALISM:

Fort Dunvegan Historical Society Trust Fund
Gakken Dinosaur Exhibit Trust Fund
C.O. Nickle Trust Fund
Turner Valley Gas Plant Trust Fund

EDUCATION:

Federal French Language Grants Fund
Mildred Rowe Weston Estate Trust
School for the Deaf Donations

ENVIRONMENT:

Surface Reclamation Fund

FAMILY AND SOCIAL SERVICES:

Various Institutions Trust Accounts

ENERGY:

OSLO Disputed Federal Contributions Trust Account

FORESTRY, LANDS AND WILDLIFE:

Junior Forest Warden Program Fund

HEALTH:

Various Institutions Trust Accounts

PUBLIC WORKS, SUPPLY AND SERVICES:

Security Deposits Trust Fund

RECREATION AND PARKS:

International Youth Year - 1985 Trust Fund
Western Canada Games Trust Fund

SOLICITOR GENERAL:

Correctional Institutions Trust Accounts
Impaired Driving Initiatives Trust Fund

TREASURY:

Bond and Coupon Accounts:
- Matured Interest
- Unpresented Debentures

General Trust Account
A.L. Sifton Estate
Ultimate Heir Trust Fund "A"
Ultimate Heir Trust Fund "B"

Department of Advanced Education
year ended March 31, 1991

Accounting principles for higher education institutions

In 1988, the Canadian Institute of Chartered Accountants introduced recommendations designed to make not-for-profit organizations, such as universities, colleges and technical institutes, subject to generally accepted accounting principles. The recommendations were effective for fiscal periods commencing on or after January 1, 1989.

One of the recommendations dealt with the requirement to accrue the liability for vacation earned, but not yet taken. At the conclusion of the 1991 audits of the institutions, two fiscal years have passed since the recommendations became effective. Only two entities, The University of Alberta and Athabasca University, have recorded their vacation pay accrued liability. Other institutions have chosen not to record the liability, or are unsure of the position of the Department on the matter. It should be noted that the requirement to record vacation pay also applies to hospitals, and that the Department of Health informed hospital administrators of their position on the matter by a directive dated July 20, 1989. All of the Provincial hospitals audited by my staff now record their vacation pay liability in accordance with generally accepted accounting principles.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department encourage the institutions to accrue the liability for vacation earned, but not yet taken.

Legislative compliance

Some institutions do not appear to understand certain requirements and constraints of the Colleges Act and the Technical Institutes Act, such as those concerning the making of loans, property leasing, joint venture agreements and incurring debt.

This report and previous reports include recommendations concerning non-compliance with statutory authorities by colleges and technical institutes. In most cases, the institutions' management either believed that they had the requisite authority, or did not realize that their actions were constrained by the Acts which govern them. Colleges and technical institutes are statutory corporations, and have only those powers expressly given to them by statute or those that may reasonably be inferred from the statutes. Legal opinions provided to me indicate that some actions by institutions, such as the making of loans, are not within the statutory powers of the institutions. Other actions, such as property leasing, joint venture agreements or incurring debt, require the approval of the Lieutenant Governor in Council or, in some instances, the Minister of Advanced Education.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department of Advanced Education consult with the colleges and technical institutes to resolve concerns involving requirements of the Colleges Act and the Technical Institutes Act.

Students Finance Board
year ended March 31, 1991

Verification and Audit Unit

For several years, I have commented on the efforts of the Board to develop comprehensive procedures for the annual verification of student loan applications. In my 1989-90 report (page 26), I commented on the planned activities of the Board's new Verification and Audit Unit. The Unit was established to determine if financial assistance provided to students is in excess of their legitimate needs.

As part of my review of the Unit's activities, I participated with the Auditor General of Canada in a joint review of income data reported by students for the 1989-90 loan year. The joint review compared income reported by students with income data available to the Board from other sources.

The objective of the review by the Auditor General of Canada was to determine the extent of excess Canada student loan amounts resulting from understatement of financial resources by students at the time of their loan applications. This review indicated that 27% of students in five provinces, including Alberta, understated or misrepresented their financial situation or did not, as required by loan application terms, advise the provinces of any increase in their resources.

The objective of the review by my staff was to determine the usefulness to the Board of performing similar income comparisons. It was concluded that the Verification and Audit Unit has identified significant discrepancies through comparison of Board data with other available information. The review also confirmed that certain categories within the overall student application population have a higher likelihood of income discrepancies.

Details of the findings of the joint review were provided to the Board to assist them in further improving the verification and audit of student loan applications.

In a management letter to the Chairman at the conclusion of the review, it was recommended that the Verification and Audit Unit of the Students Finance Board continue to compare income reported by students with income data available from other sources.

The Chairman confirmed that the Board recognizes the need for obtaining data from other sources where feasible. It intends to continue to direct verification and audit resources to known problem areas.

Other entities

A financial audit of the **Students Loan Fund** was also completed for the year ended March 31, 1991.

UNIVERSITIES, RELATED ENTITIES AND THE BANFF CENTRE

The Provincially-owned universities, related entities and the Banff Centre operate under the authority of the Universities Act and the Banff Centre Act respectively. The financial statements of these Provincial agencies are not published in the Public Accounts, nor are they included in the Province's consolidated financial statements. The Minister of Advanced Education, who administers the aforementioned Acts, tables the audited financial statements of these agencies each year in the Legislative Assembly.

Athabasca University
year ended March 31, 1991

In addition to the annual financial audit, my staff completed a financial audit of the University's wholly-owned subsidiary company **Athabasca University Development Institute** for the year ended March 31, 1991.

The University of Alberta
year ended March 31, 1991

In addition to the annual financial audit, financial audits were completed for the year ended March 31, 1991 of the following companies:

The Laser Institute
Alberta Microelectronic Centre
Telecommunications Research Laboratories

The University of Calgary
year ended March 31, 1991

In addition to the annual financial audit, my staff completed financial audits for the year ended March 31, 1991 of the following companies:

University Technologies International Inc.
The Arctic Institute of North America, and
ACTC Technologies Inc. for the year ended December 31, 1990

The University of Lethbridge
year ended March 31, 1991

Accounting for tax rebates

The University does not account for tax rebates appropriately.

The University's financial statements record rebates of federal sales tax and goods and services tax as revenue, and disclose the related expenditures on a gross, tax included, basis. This practice results in the overstatement of operating expenditures, and makes it difficult to compare the University's financial information with other post-secondary institutions

which disclose expenditures net of the rebates. In addition, capital assets and equity in capital assets are inflated by the amount of the rebates. Approximately $616,000 of tax rebates were inappropriately accounted for in 1990-91.

The University adopted the practice to be consistent with its budgeting process.

In a management letter to the President at the conclusion of the audit, it was recommended that, for financial statement purposes, the University record expenditures net of tax rebates, and restate the value of capital assets and equity in capital assets.

The University agreed to consider this recommendation for the year ending March 31, 1992.

Other entities

A financial audit of **The Banff Centre for Continuing Education** was also completed for the year ended March 31, 1991.

PUBLIC COLLEGES

The Provincially-owned public colleges operate under the authority of the Colleges Act. Although these colleges are Provincial agencies, their financial statements are not published in the Public Accounts, nor are they included in the Province's consolidated financial statements. The Minister of Advanced Education, who administers the Colleges Act, tables the audited financial statements of the colleges each year in the Legislative Assembly.

Alberta College of Art
year ended June 30, 1991

Loans to employees

The College continued to make loans to employees for purposes unconnected with the College's operations.

In my two previous reports (1989-90 page 30), I recommended that the Alberta College of Art refrain from making such loans.

In 1990, the Colleges Act was amended to include, in section 9.1, a general power, subject to the Act, "to manage and control a college and its property, revenue, business and affairs." The College and the Department of Advanced Education have indicated that this section provides the requisite authority to loan money to employees.

Based on legal advice I have obtained, I do not agree that the amended legislation is sufficient to empower the College to be in the business of lending money where the loans are made for purposes unrelated to the purposes for which the College was created.

During the audit, an instance was noted where the principal balance of a loan was substantially increased, without a corresponding amendment of the repayment terms. As a result, repayments were not sufficient to reduce the loan balance. In another instance, it was noted that an employee received sixteen payroll advances during the year, some of which remained outstanding for several months. This was in contravention of the College's own policy which is to approve payroll advances only in extraordinary circumstances. Further, the policy requires that advances normally be repaid by the end of the following calendar month.

In a management letter to the Chairman of the Board of Governors at the conclusion of the audit, it was again recommended that the College refrain from making loans to its employees for purposes unconnected with the College's operations.

The College has agreed that advances will be curtailed, existing loans will be made current, and that no further loans of this type will be made.

Fairview College
year ended June 30, 1991

In addition to the annual financial audit, my staff completed an examination of the systems used by the College to prepare and monitor the annual operating budget, and to provide periodic financial reporting.

Budget systems

The College's budget process lacks a strategic plan to provide guidance for the allocation of resources into priority areas.

The College operates in four divisions, each of which compiles its own budget. A budget review committee then assembles the divisional information into an operating budget for the whole College.

The College's budget successfully limits planned expenditure to the funds available. However, a results oriented strategic plan could improve the effectiveness of the budget process and provide guidance for the allocation of resources into priority areas. An analysis of actual performance in relation to the plan could improve the College's management, and also form the basis for updating the strategic plan.

In a management letter to the President at the conclusion of the audit, it was recommended that the College develop a strategic plan to guide the allocation of resources, and also analyze performance in relation to the plan.

Keyano College
year ended June 30, 1991

Accounts receivable

In my 1989-90 report (page 32), I recommended that Keyano College improve its systems for the control and collection of accounts receivable. The College's receivables included significant amounts which had been outstanding for a number of years.

The audit for the current year indicated that the College had improved accounts receivable control procedures. The amount of old accounts receivable remaining to be cleared was reduced to a manageable level, therefore my previous concern is largely resolved.

Lakeland College
year ended June 30, 1991

In addition to the annual financial audit, my staff completed an examination of the systems used by the College to prepare and monitor the annual operating budget, and to provide periodic financial reporting.

Budget systems

The College's budget and financial reporting system does not provide useful monthly or quarterly budget information.

A properly developed budget for the year, and for each month or quarter therein, provides a good measure against which actual operating results can be evaluated. Variances identified in monthly or quarterly actual-to-budget comparisons could provide timely information to management on the probability of achieving budgeted operating objectives. Since revenues and expenditures do not occur evenly throughout the year, the variances reported by the present system are only approximations - the monthly amounts are simply prorated allocations of the annual budget.

In a management letter to the President at the conclusion of the examination, it was recommended that the College improve the budget development and monitoring process to provide for monthly or quarterly budget allocations and variance reports.

The College is currently reviewing the budget system and has initiated some modifications.

Federal Sales Tax refunds

Claims for federal sales tax refunds were not submitted promptly.

Construction of the College's Lloydminster Campus Residence project was completed in January 1991. Although the College is eligible for refund of federal sales tax included in project expenditures, no claims had been prepared or filed as at the date of audit completion in October 1991. For annual financial statement purposes, management estimated a refund amount of $153,000.

In a management letter to the President at the conclusion of the audit, it was recommended that the College ensure that all refunds are promptly identified and claimed.

Lethbridge Community College
year ended June 30, 1991

Reservation of opinion

The Auditor's Report on the financial statements of the College for the year ended June 30, 1991 contained a reservation of opinion as follows:

> "The College has incurred a liability for early retirement costs amounting to $228,585. However, this amount is not recorded as a liability and a related charge to the operating fund in these financial statements. Had this amount been recorded, the deficiency of revenue over expenditure for the operating fund would have increased by

$228,585 and the operating fund balance would have decreased by the same amount."

The accrual basis of accounting, under which the College operates, recognizes the effect of transactions and events in the period in which the transactions and events occur. The event giving rise to the liability for the incentive payments is the decision by the College to implement a program to reduce staff levels. As no significant future services will be rendered by the retiring employees, the incentive payments should be charged as an expense of the period in which the event occurred, being the year ended June 30, 1991.

The annual financial statements should present fairly the financial position and results of the operations of the College. Failure to recognize the costs of the early retirement incentive plan in 1990-91 is not appropriate and is not in accordance with the accrual basis of accounting. Consequently, the Auditor's Report on the combined financial statements of the College for the year ended June 30, 1991 contains a reservation of opinion.

Medicine Hat College
year ended June 30, 1991

In addition to the annual financial audit, my staff completed an examination of the systems used by the College to prepare and monitor the annual operating budget and to provide periodic financial reporting.

Budget submissions to the Department of Advanced Education

The College does not comply with Department of Advanced Education guidelines governing the submission of operating budgets.

The Department of Advanced Education guidelines issued in 1990 require that information be provided to allow comparison of the operating budget and the audited annual financial statements. The guidelines stress that revenues from all sources should be provided for in the budget. The 1991 budget submitted by the College did not include an amount for investment income from reserve accounts. This source of revenue averaged more than $475,000 in each of the two prior fiscal years and totalled approximately $2.3 million since 1983.

It is acknowledged that the 1991 budget submitted to the Department was an improvement over budgets of prior years, in that it could be satisfactorily reconciled to the total of the budget columns shown on internal statements of operations. For the five year period covering the years ended June 30, 1986 to 1990, the budgets submitted to the Department of Advanced Education differed significantly from the budgets reflected in the internal documents. The submitted budgets for the five year period indicated a total operating and ancillary services surplus of $261,993. However, the budget information provided for internal statements indicated a total surplus of $5,492,629, which compared much more closely with the actual total surplus of $4,358,323 reported in the audited financial statements for the period. Much of the surplus arising during the period was transferred to reserves.

In a management letter to the President at the conclusion of the audit, I made the following recommendation:

Medicine Hat College - Budget submissions

Recommendation No. 7

It is recommended that Medicine Hat College comply with the guidelines for submitting operating budgets to the Department of Advanced Education.

Budget systems

The College's budget and financial reporting system does not provide useful monthly or quarterly budget information.

A properly developed budget for the year, and each month or quarter therein, provides a good measure against which actual operating results can be evaluated. Variances identified in monthly or quarterly actual-to-budget comparisons could provide timely information to management on the probability of achieving budgeted operating objectives. Since revenues and expenditures do not occur evenly throughout the year, the variances reported by the present system are only approximations - the monthly amounts are simply prorated allocations of the annual budget.

In a management letter to the President at the conclusion of the examination, it was recommended that the College improve the budget process to provide for monthly or quarterly budget allocations and variance reports.

Legislative authority, computer loans

Loans made to staff and students under the College's computer purchase plan lack appropriate legislative authority.

The College provides interest free loans to staff and students for the purchase of personal computers. At June 30, 1991, 29 persons were participating in the plan, and outstanding loans exceeded $29,000.

College management believed that authority to make computer loans existed under section 9.1 of the Colleges Act which gives a public college a general power, subject to the Act, "to manage and control a college and its property, revenue, business and affairs."

Based on legal advice I have obtained, I do not agree that the amended legislation is sufficient to empower the College to be in the business of lending money where the loans are made for purposes unrelated to the purposes for which the College was created.

In a management letter to the President at the conclusion of the audit, it was recommended that the College refrain from making computer loans to staff and students.

Mount Royal College
year ended June 30, 1991

In addition to the annual financial audit, my staff completed an examination of the systems used by the College to prepare and monitor the annual operating budget and to provide periodic financial reporting.

Financial information provided to the Board of Governors

Budgets and interim financial reports to the Board did not clearly indicate the status of the budgets, and were inconsistent with annual financial reporting disclosure.

Budgets submitted to the Board of Governors should clearly indicate the expected surplus or deficit, and variance reports should be prepared and reviewed for all significant differences between budget and actual results. During 1990, a revised budget submitted to the Board was considered to be a balanced budget. However, an error within the expenditure section masked the fact that a deficit of more than $550,000 was forecast.

In addition, 1990 and 1991 budgets submitted to the Board double counted revenues of $465,000 and $307,000 respectively for tuition fees.

Accounting procedures used for interim financial reports are not consistent with those used for the audited annual financial statements. Significant adjustments relating to inventories, prepaid expenses and reserve transactions are usually made to the interim financial reports in order to produce the annual financial statements. During 1990, interim reports prepared by College management included $372,000 of conditional funds opening balances as revenue, even though they had been recorded as revenue in the 1989 audited financial statements. A more consistent application of accounting policies and procedures would reduce the distortion of interim reporting.

In a management letter to the President at the conclusion of the examination, I made the following recommendation:

> Mount Royal College - Financial information provided to the Board of Governors
>
> **Recommendation No. 8**
>
> It is recommended that Mount Royal College improve its budget and interim financial reporting systems to provide for submission of complete and consistent information to the Board of Governors.

Budget systems

The College's budget and financial reporting system does not provide useful monthly budget information.

A properly developed budget for the year and each month therein provides a good measure against which actual operating results can be evaluated. Variances identified in monthly actual-to-budget comparisons could provide timely information to management on the probability of achieving budgeted operating objectives. Since revenues and expenditures do not

occur evenly throughout the year, the variances reported by the present system are only approximations - the monthly amounts are simply prorated allocations of the annual budget.

In a management letter to the President at the conclusion of the examination, it was recommended that the College improve the budget process to provide for monthly budget allocations and variance reports.

Capital assets

In my 1989-90 report (page 34), I recommended that Mount Royal College develop and implement procedures to control and report fixed asset disposals. Audit tests indicated that the College's capital asset records included the value of many assets no longer at the College. Management agreed to a significant reduction in the carrying value of capital assets for financial statement purposes and undertook to make the necessary adjustments to the subsidiary records.

During 1990-91 the College made a commendable effort, and has completed approximately two-thirds of the physical verification of furniture and equipment by department. Upon completion of the verification, the subsidiary records and the general ledger control account will be adjusted to reflect the value of actual capital assets on hand. My staff will continue to monitor this process during future audits.

Legislative authority, computer loans

Loans made to staff under the College's computer purchase plan lack appropriate legislative authority.

Under the plan, the College provides interest-free loans of up to $5,000 to each participating employee for a maximum period of two years. The College obtains promissory notes and payroll deduction authorizations for repayment. College policy restricts the maximum amount of loans outstanding at any time to $100,000. At June 30, 1991, 88 persons were participating in the plan and outstanding loans totalled approximately $92,600.

College management believed that authority to make computer loans existed under section 9.1 of the Colleges Act which gives a public college a general power, subject to the Act, "to manage and control a college and its property, revenue, business and affairs."

Based on legal advice I have obtained, I do not agree that the amended legislation is sufficient to empower the College to be in the business of lending money where the loans are made for purposes unrelated to the purposes for which the College was created.

In a management letter to the President at the conclusion of the audit, it was recommended that the College refrain from making computer loans to staff.

Olds College
year ended June 30, 1991

Legislative authority, computer loans

Loans made to staff under the College's computer purchase plan lack appropriate legislative authority.

Under the plan, the College provides loans of up to $5,000 to each participating employee for up to three years, for the purchase of personal computer equipment and software. At June 30, 1991, 38 persons were participating in the plan and outstanding loans totalled approximately $70,600.

College management believed that authority to make computer loans existed under section 9.1 of the Colleges Act which gives a public college a general power, subject to the Act, "to manage and control a college and its property, revenue, business and affairs."

Based on legal advice I have obtained, I do not agree that the amended legislation is sufficient to empower the College to be in the business of lending money where the loans are made for purposes unrelated to the purposes for which the College was created.

In a management letter to the President at the conclusion of the audit, it was recommended that the College refrain from making computer loans to staff.

Bank reconciliations

The College did not promptly reconcile the payroll bank account.

For several years, the College has not reconciled the payroll bank account promptly. In the current year, the account was not reconciled at all until after June 30, 1991. The year end reconciliation required extensive analysis to correct errors, and unidentified reconciling items totalling over $8,000 (1990 $2,700) were written off in order to agree the bank balance to the general ledger account.

Failure to complete timely bank reconciliations allows errors or misappropriations to remain undetected.

In a management letter to the President at the conclusion of the audit, it was recommended that senior financial staff of the College review all bank reconciliations to ensure that they are prepared promptly and accurately.

Other entities

Financial audits of the following were also completed for the year ended June 30, 1991:

Grande Prairie Regional College
Grant MacEwan Community College
Red Deer College

TECHNICAL INSTITUTES

The Northern Alberta Institute of Technology and the Southern Alberta Institute of Technology operate under the Technical Institutes Act. Although they are Provincial agencies, their financial statements are not published in the Public Accounts nor are they included in the Province's consolidated financial statements. The Minister of Advanced Education, who administers the Technical Institutes Act, tables the audited financial statements of the institutes each year in the Legislative Assembly.

Northern Alberta Institute of Technology
year ended June 30, 1991

Compliance with policies and procedures

In my 1989-90 report (page 35), I commented that the Institute's Board of Governors did not comply with established policies and procedures for purchasing, travel services, travel and entertainment expenses and hiring practices. Noted instances of Board actions were not consistent with the determination of general policies, and directly impacted the business affairs of the Institute.

I am pleased to report that the 1991 audit revealed no further instances of non-compliance by the Board with the established policies of the Institute and appropriate sections of the Technical Institutes Act.

Capital assets

The procedures used by the Institute to account for its capital assets are deficient.

Some capital assets selected by audit staff for physical verification at year end could not be located. Other selected assets were found in different locations than those indicated in the Capital Equipment System. One of the assets not located had in fact been declared surplus two years previously but was still recorded in the system. It was also noted that a delay of approximately ten months occurred between disposal of an asset and the removal of the asset information from the records. In addition, a number of unused or obsolete items still remained in the capital asset records.

In a management letter to the President at the conclusion of the audit, it was recommended that permanent movements of capital assets be appropriately recorded in the Capital Equipment System and that procedures be implemented to promptly record disposals, and identify and record unused or obsolete assets.

Southern Alberta Institute of Technology
year ended June 30, 1991

Financial reporting

In my 1989-90 report (page 37), I commented on significant deficiencies in the financial management of the Institute. Specifically, the Institute's finance department was not sufficiently involved in the preparation and review of financial information, and the periodic financial reporting to the

Board was generally on a cash basis, not the accrual basis of accounting used for audited annual financial statements. These deficiencies contributed to management's inability to anticipate large operating deficits arising in 1988-89 and 1989-90.

I am pleased to report that through the actions of management and the Board of Governors, significant improvements have been made in the financial management and reporting of the Institute. Very few adjustments were required as a result of the 1991 audit.

Inventories

In my 1989-90 report (page 40), I recommended that the Institute determine the nature, amount and value of materials and supplies held by departments and take appropriate action to count and record any items that are significant. My concern arose due to the Institute's decision to change its accounting policy regarding inventories, with a resulting write-off of more than $2.2 million against the operating fund, representing the carrying value of department-specific inventories. Unfortunately, the materials and supplies written off were not fully analyzed to determine if some should have remained in inventories.

During the year, the Institute reviewed these materials and supplies to ensure that adequate controls were in place and to determine appropriate inventory classification. The results of the review were examined during the audit and have resolved my previous concern.

International Education Department

In my 1989-90 report (page 41), I recommended that the Institute re-evaluate the risks, costs and benefits of the operations of its International Education Department. The Institute had significantly expanded its involvement with international projects, but management and administrative controls were not adequate for the increased activity. One such project, the Batam International Training Centre, resulted in major losses to the Institute.

The Batam project was terminated by the Institute and the losses were recognized in the 1990 financial statements. In October 1991, the Institute disposed of Batam capital assets with a book value of $2,400,000 for $300,000. A barge used in conjunction with the Batam project was taken over by the Province under its guarantee of a loan to a sub-contractor, and was being held for sale in Singapore. Because of the magnitude of the losses, the Institute reduced the size of many of its operations. The International Education Department was virtually eliminated, and its functions moved into other academic and administrative departments.

Legislative authority

In my 1989-90 report (page 42), I commented on two instances of non-compliance with legislation by the Institute. The noted instances arose during the 1989 audit, and no further instances were noted during the 1990 or 1991 audits.

Department of Agriculture
year ended March 31, 1991

In addition to the annual financial audit, my staff completed an audit of the Province's cost-sharing claim under the Canada-Alberta Farm Income Assistance Agreement. This audit included an examination of the systems used to control and disburse the shared expenditures. A purpose of this audit was also to provide assurance to the Government of Canada that the conditions contained in the Agreement were complied with.

Alberta Agricultural Development Corporation
year ended March 31, 1991

In addition to the annual financial audit, my staff completed an audit of the separate financial statements of Lambco, a division of the Alberta Agricultural Development Corporation, for the period from April 1, 1990 to June 15, 1991. Lambco was sold on June 16, 1991.

Alberta Hail and Crop Insurance Corporation
year ended March 31, 1991

In addition to the annual financial audit, the following work was completed:

- Audits of the Province's 1990-91 cost-sharing claims under the Canada-Alberta Crop Insurance Agreement.

- An examination of the activities of the Corporation's Information Services Department, including a review of the Corporation's computer systems, systems development controls and project management processes. This examination was conducted at the request of the Corporation's Board.

The Corporation is experiencing considerable growth. In addition to normal business expansion, it is preparing to administer the recently announced Gross Revenue Insurance Program. Planning for the implementation of this program, and setting up the infrastructure needed to administer it has strained the Corporation's administrative systems and resources resulting in many of the problems identified during the audit.

Management information systems

Errors in computer programs, and inadequate control over the information they produce, resulted in inaccurate information being generated.

For example, errors in the formulae used to calculate premiums payable on two of the Corporation's smaller programs resulted in undercharges and overcharges; balances on the claims and application computer files were not reconciled monthly with the result that management reports produced from them were unreliable; incorrect claims were paid because a listing of policy endorsements was not made available to claims officers; and

important computer data was temporarily lost during a data transfer operation.

Most of the errors that occurred in the computation of premiums, and the reconciliation of the claims master file have since been followed up and corrected, and the lost computer data has been recovered. Nevertheless, these problems emphasize the need for more rigorous testing of computer programs and better control over data.

Reliable and timely management information is a corporate resource. All managers, therefore, must take some responsibility for its reliability. This includes responsibility for the procedures used to gather information of high quality, and for determining the content, frequency and distribution of the reports generated.

In a management letter to the Corporation's General Manager at the conclusion of the audit, I made the following recommendation:

> Alberta Hail and Crop Insurance Corporation - Management information systems
>
> **Recommendation No. 9**
>
> It is recommended that the Alberta Hail and Crop Insurance Corporation conduct a review of the processes used to generate management information to ensure the reliability and timeliness of management reports.

The General Manager has since responded that the Corporation is taking the necessary action to implement the recommendation.

Financial record inaccuracies

The audit revealed many inaccuracies and inadequacies in the Corporation's financial records which contributed to the delay in releasing the financial statements.

Some of the more significant findings were:

- The annual claim for contributions under the Federal/Provincial agreement was calculated incorrectly. The original calculation resulted in the claim being understated by approximately $1.5 million, with a corresponding understatement of approximately $900,000 in the transfer to the Reinsurance Funds.

- The annual claim for high risk subsidies from the Province's General Revenue Fund was also calculated incorrectly. This subsidy allows the Corporation to reduce premiums paid by farmers who farm in high risk areas. For the 1990 crop year, the amount claimed was $7.4 million. The correct amount, however, was $3.7 million. Thus, a special warrant of $3.3 million, which was applied for to cover the higher than expected amount, was obtained unnecessarily.

- A number of errors were observed in the year-end accounts payables, and the capital assets ledger was not up-to-date. In addition, the general ledger contained an excessive number of journal entry adjustments, some of which had been reversed and re-entered. Many of these problems were attributable to new staff who were not familiar with the Corporation's accounting processes. Even so, better supervision of their work could have avoided many of the problems experienced.

The Corporation needs to improve the supervision exercised over the maintenance of its financial records and the preparation of its annual financial statements.

In a management letter to the Corporation's General Manager at the conclusion of the audit, I made the following recommendation:

> Alberta Hail and Crop Insurance Corporation - Financial record inaccuracies
>
> **Recommendation No. 10**
>
> It is recommended that the Alberta Hail and Crop Insurance Corporation improve the supervision over the maintenance of its financial records and the timeliness of its annual financial statements.

The General Manager has since responded that considerable progress has been made towards implementing the recommendation.

Information services

The Corporation's Information Services Department is experiencing difficulty in satisfying the needs of its users.

The Corporation's expanding operations are resulting in its Information Services Department being called upon to provide an ever widening range of support services. At the time of the audit examination, the difficulties experienced by the Department were being compounded by the lack of an adequate strategic plan. The scheduling and management of systems development and acquisition projects were also not operating smoothly. Better methods are needed to identify and control the more important changes, and to guide and supervise approved projects.

Many of the Corporation's computer systems used older technology. Many of its computer programs were unstructured and poorly documented. This limited the Department's productivity, and its ability to respond effectively to changes with tight deadlines.

My staff suggested that using newer technology, such as a database management system, could offer several potential benefits. These would include greater productivity, greater ability to meet tight deadlines, enforced documentation standards and the ability for user staff to support ad-hoc queries. Redeveloping existing systems would also distribute knowledge of the applications throughout the Department's staff.

Compared to other operations of similar size and complexity, the staffing of the Information Systems Department appeared reasonable. The Corporation's expanding operations, however, could soon result in the need to re-evaluate staff needs.

In a management letter to the General Manager at the conclusion of the audit, a number of recommendations were made to address the problems observed.

The General Manager has since responded that the Corporation is committed to implementing my recommendations and that progress has been made towards implementing them.

Alberta Terminals Ltd.

In February 1991, certain assets and liabilities and the business activities of Alberta Terminals Ltd. were sold. Ownership of its subsidiary company, **Alberta Terminals Canola Crushers Ltd.**, was retained by the Province and the Company's name was changed to Northern Lite Canola Inc. An audit of the financial statements of **Northern Lite Canola Inc.** for the year ended July 31, 1991, was completed.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1991:

Alberta Agricultural Research Institute
Alberta Dairy Control Board
Crop Reinsurance Fund of Alberta
Irrigation Land Manager
Livestock Identification and Brand Inspection Fund
Livestock Patrons' Assurance Fund
Stray Animals Act Fund
The Horned Cattle Purchases Act Trust Account

Department of the Attorney General
year ended March 31, 1991

In addition to the annual financial audit, the following work was completed:

- An audit of the Province's 1990-91 claim for financial support from the Government of Canada for programs and services for victims of crime.

- An examination of the cash handling procedures at the Edmonton Clerk's Office. The examination focussed on the control exercised over the considerable volumes of cash that are regularly processed by the Office. It also included a review of controls over funds received from third parties that are held in trust and disbursed under orders of the Court.

Claims for civil legal aid

The Department has still not made a decision on whether it should try to share certain eligible expenditures with the Government of Canada.

The Department provides funding for civil legal aid through the Legal Aid Society of Alberta. Some of these expenditures could be eligible for cost-sharing with the Government of Canada under the Canada Assistance Plan. To date, however, the Department has chosen not to claim cost-sharing of these expenditures. As a result, the Province foregoes approximately $300,000 of revenue each year, and is one of only two provinces that does not cost-share civil legal aid expenditures.

I commented on this situation in my 1989-90 annual report (page 47). Since then, representatives from the Departments of the Attorney General and Family and Social Services have met to investigate the matter. However, no decision has yet been reached on how or whether to claim.

In view of the recent decision by the Government of Canada to restrict annual increases in Alberta's Canada Assistance Plan claims to 5%, any additional claims that the Department can make in the 1989-90 base year will provide long-lasting financial benefits to the Province.

In a management letter to the Deputy Attorney General at the conclusion of the audit, it was again recommended that the Department continue to seek ways of cost-sharing eligible civil legal aid expenditures with the Government of Canada.

The Alberta General Insurance Company
year ended December 31, 1990

Unnecessary expenditures

The Department has taken action to enable the Company to avoid paying federal income taxes.

The Company is administered by staff of the Department of the Attorney General. It provides coverage under one small insurance policy and is,

therefore, essentially dormant. Its main asset at December 1990 was a $560,000 bank account, the interest on which comprised most of the Company's annual profit.

Unlike most Provincial agencies, the Company is not exempt from paying income tax. Until 1989, no taxes were paid because annual profits were offset against accumulated tax losses from prior years. The losses, however, were used up in 1989 and the Company paid federal tax of $2,500 for that year. A further $12,300 was paid for 1990.

In management letters following each of the Company's annual audits for the past several years, it was recommended that action be taken to avoid the unnecessary payment of federal income taxes. This recommendation was again repeated at the conclusion of the audit to December 31, 1990.

I have since been informed that $400,000 of the Company's cash and retained earnings was transferred to the Province's General Revenue Fund in April 1991. This will eliminate the Company's annual tax liabilities.

Other entities

Financial audits of the **Chattel Security Registries Assurance Fund** and the **Registrar's Assurance Fund** were also completed for the year ended March 31, 1991.

Department of Career Development and Employment
year ended March 31, 1991

No matters were reported to management at the conclusion of the Department's annual financial audit.

Department of Consumer and Corporate Affairs
year ended March 31, 1991

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Other Entities

A financial audit of the **Alberta Insurance Council** was also completed for the year ended December 31, 1990.

Department of Culture and Multiculturalism
year ended March 31, 1991

No matters were reported to management at the conclusion of the Department's annual financial audit.

Glenbow-Alberta Institute
year ended March 31, 1991

In addition to the annual financial audit, separate audits were also completed of the financial statements of the Glenbow Foundation and the Luxton Museum Ltd.

My report on the 1990-91 financial statements of the Institute contains a reservation of opinion because, as explained on page 110 of this report, the Institute receives donation revenue which is not susceptible of complete audit verification.

Other entities

Financial audits of the following were also completed:

Alberta Multiculturalism Fund - year ended March 31, 1991
Culture and Multiculturalism Revolving Fund - year ended March 31, 1991
The Alberta Art Foundation - year ended March 31, 1991
The Alberta Foundation for the Literary Arts - year ended March 31, 1991
The Alberta Foundation for the Performing Arts - year ended March 31, 1991
The Alberta Historical Resources Foundation - fifteen months ended March 31, 1991
The Government House Foundation - year ended March 31, 1991

Department of Economic Development and Trade
year ended March 31, 1991

In addition to the annual financial audit, my staff completed an examination of the Department's systems for managing its financial assistance programs.

Financial assistance programs

The incorporation of specific measurable benefits into program objectives would help management operate its programs more effectively.

The Department's role is to co-ordinate, develop and implement the government's economic development and diversification strategy. It does this, in part, through financial assistance programs such as providing grants and loans, purchasing preferred shares, guaranteeing loans, and providing business counselling to Alberta businesses.

The Department's program objectives are normally expressed in general terms. For example, the objective of the Market Development Assistance Program is to provide assistance to Alberta businesses by sharing the financial risks of entering new geographic markets for exporting their goods and services on a basis where the costs are commensurate with the benefits to Alberta. Objectives stated in this manner are vague and difficult to measure.

By defining the specific results to be attained and establishing targets that can be measured, the Department can improve the planning, execution, evaluation and reporting of its programs. More specific objectives would enable activities to be more focussed. Also, program evaluation will improve if information gathered about achievements can be compared and interpreted in relation to specific established targets.

For example, the Department could be more specific by expressing an expected increase in export sales in relation to grants or hours of counselling that it intends to provide. This example is provided only to clarify my recommendation. The actual measurable objectives must obviously be determined by the Department.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Economic Development and Trade - Financial assistance programs
>
> **Recommendation No. 11**
>
> It is recommended that the Department of Economic Development and Trade establish specific measurable objectives for its financial assistance programs, and assess actual results in relation to these objectives.

I have since been informed by management that the Department has

implemented this recommendation for one of its programs and is considering the recommendation in relation to other programs.

Alberta Opportunity Company
year ended March 31, 1991

In addition to the annual financial audit, my staff completed an examination of the systems used by the Company to administer the venture and seed funding programs.

Venture funding

The criteria used by the Company to make investment decisions appear inconsistent with its objectives.

The Venture Funding Division was established in 1987. Venture funds are provided to businesses that are at the leading edge of the industry in which they are competing and have developed, or are developing, new products and/or technology. Generally, venture funding will result in the Company taking an equity position in the recipient organization.

Section 2 of the Alberta Opportunity Fund Act provides that the Fund is to be used for "...promoting the development of resources and the general growth and diversification of the economy of Alberta." Due to the breadth of these words, the section is open to a wide range of interpretations. Under these circumstances, criteria must be used to help assess whether investments are within the Company's mandate. However, the criteria used by the Company to evaluate certain venture investments do not appear to meet the spirit of this section of the Act.

In one case, a $2.5 million venture investment was used to establish a business in the United States. All spin-off benefits arising from this investment such as jobs, tax revenue, and purchases from local suppliers fall outside the Province. The only potential benefit to the economy of Alberta appeared to be that portion of the expected profits from the venture that would accrue to the Company. It is difficult to see how such an investment promotes the development of resources and the general growth and diversification of the economy of Alberta.

In a management letter to the Company's President and Managing Director at the conclusion of the audit, I made the following recommendation:

> Alberta Opportunity Company - Venture funding
>
> **Recommendation No. 12**
>
> It is recommended that the Alberta Opportunity Company use criteria consistent with its objectives to assess venture investments.

I have since been informed by management that the Alberta Opportunity Company will not be making investments in operations based in the United States in the future.

Other entities

Financial audits of the following were also completed:

Alberta Intermodal Services Ltd. - year ended December 31, 1990
Alberta Motion Picture Development Corporation - year ended March 31, 1991
Motion Picture Development Fund - year ended March 31, 1991

Department of Education
year ended March 31, 1991

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Teachers' Retirement Fund
year ended August 31, 1990

In addition to the annual financial audit, my staff completed an examination of controls over the processing of information reported to the Fund by each school board in Alberta.

Information provided by school boards

Management needs greater assurance that information supplied to the Fund by school boards is correct.

The Teachers' Retirement Fund administers the pension plan for Alberta teachers. The Fund collects contributions from teachers currently employed and makes pension payments to retired teachers. Contributions paid to the Fund are based on teachers' salaries. Pension payments made by the Fund are based on salaries and the number of years teachers were employed.

The Fund relies upon the various school boards to provide information about contributions, salaries and years of employment. The accuracy of the information depends on the quality of the boards' accounting records and understanding of the Fund's legislation and by-laws. If this information is not accurate, the contributions collected by the Fund and pension payments made by the Fund, will not be correct.

In a management letter to the Executive Director at the conclusion of the audit, it was recommended that management of the Fund assess the extent of possible inaccuracies in the information provided by the school boards and the resulting impact the inaccuracies would have on contributions and pension payments. It was further recommended that procedures be developed to reduce the possibility of errors to an acceptable level.

I have been informed that management has completed an assessment of the accuracy of the information supplied by the school boards. As a result of the assessment, management determined that all pension plan reports from school boards should be audited.

Other entities

Financial audits of the following were also completed:

Education Revolving Fund - year ended March 31, 1991
Northland School Division No. 61 - year ended August 31, 1990
School Foundation Program Fund - year ended March 31, 1991

Department of Energy
year ended March 31, 1991

In addition to the annual financial audit, the following work was completed:

- An examination of the Department's systems to monitor and control its Enhanced Oil Recovery program.
- An examination of components of the system used to verify the calculation of natural gas and by-products royalties. These included the systems used to monitor inventory and verify gas cost allowance claims.
- An examination of the Department's systems to monitor and control gas royalty accounts receivable.
- An examination of the systems used by the Department to calculate crude oil royalties, freehold mineral rights tax and related incentives.
- An examination of the systems used in the Automated Information Services Division for planning, budgeting and monitoring manpower costs of systems development and maintenance.

Oil and gas production data

In my previous annual reports (1990 page 55), I recommended that the Department and the Energy Resources Conservation Board continue to improve the quality of production data used in the calculation of royalties. I am pleased to report that during 1990-91, the Department and the Board agreed on standards of accuracy to guide oil production audits. In addition, work has commenced on planning the verification of gas production information. My staff will continue to monitor the progress of this project.

Crude oil royalty, mineral rights tax and related systems

Crude oil royalty and freehold mineral rights tax comprise a significant portion of the Province's annual revenues. An efficient and effective method to audit these revenues is to annually examine the systems used to calculate crude oil royalty, mineral rights tax and related incentives. The examination is designed to assess the validity of management's assertions that these systems have appropriate controls and produce reliable information. Except for the concern regarding the accuracy of gas production data, the examination again concluded that these assertions were valid.

Deduction from royalties

In the Public Accounts of the Province, royalty revenue is disclosed net of deductions relating to gas cost allowance and enhanced oil recovery relief.

Last year, I recommended to the Deputy Minister of Energy that the Department liaise with the Treasury Department concerning separate disclosure of deductions from royalty in the Public Accounts, commencing with the year ending March 31, 1991.

The Department discussed this matter with the Treasury Department and it was agreed that separate disclosure of these items could not, at present, be

satisfactorily achieved within the Public Accounts. Instead, the Department has agreed to disclose this information in its Annual Report. This additional disclosure is expected to commence with the year ending March 31, 1992.

I acknowledge the Department's efforts in achieving a partial solution to this matter.

Enhanced Oil Recovery program, method of determining relief

The method used by the Department prior to June, 1990 for determining the amount of Enhanced Oil Recovery relief available to a royalty payer does not appear to have been consistent with the enabling legislation.

Conventional methods, for the production of oil, extract approximately one third of the oil in a reservoir. Enhanced oil recovery methods, which include injecting gas or chemicals, can significantly increase production from a reservoir. In 1977, the Province introduced an Enhanced Oil Recovery program. The Program allows oil producers to deduct, from royalty payable, a portion of the enhanced oil recovery costs incurred in extracting the increased production. The deduction is called Enhanced Oil Recovery relief. The cumulative cost of the relief given amounts to several billion dollars. For the year ended March 31, 1991, the cost amounted to $198 million.

My understanding of section 11 of the Petroleum Royalty Regulation under the Mines and Minerals Act is that it requires that the Minister of Energy continue to be satisfied, every month, that the relief provided will not exceed royalty otherwise due on the increased production. In other words, the Crown's royalty share on the conventional production cannot be reduced as a result of granting relief on the increased production. The Department refers to this as the requirement for the Crown to be royalty neutral.

Until June 1990, the Department allowed the relief to be applied against royalty payable on all production from a reservoir rather than only on the increased production. In my opinion, this was not in accordance with the legislation.

The Department asserts that, if the Minister is satisfied at the start of an enhanced oil recovery project that the Crown interest is adequately protected, there is no requirement to assess whether a project continues to be royalty neutral every month. The intent of the Program is to promote the use of enhanced oil recovery methods. The Department, therefore, believes it appropriate that the Province share in the initial start up cost of the project by forgoing royalties on normal production in the early stages of the project. These royalties could potentially be recovered during the mid to later stages of the project. A project can span 20 to 30 years.

The Department reviewed and modified the administration of the Program in 1982. Another review in May 1989 identified that there was a risk that the Program may not be royalty neutral over the life of the projects. In June 1990, following discussion with the oil industry, the Department amended its method of determining the relief. Relief is now limited to the monthly royalty on the increased production. If the Department had done

this from the inception of the Program, the Crown's interest would have been constantly protected. However, the Department believes that if this had been done, the benefit to industry would probably have been insufficient to spur the development of enhanced oil recovery projects.

My concern is that the way the Program was administered prior to June, 1990 appears to be at variance with the intent of the legislation. This concern, coupled with the limited accountability of the Program discussed below, could lead to a misunderstanding of the Program by Members of the Legislative Assembly.

The Department believes that the method used to administer the Program prior to June 1990, and the method used after that date, both comply with legislation. However, the risks to the Crown vary significantly depending on the method used to administer the Program. For this reason, I believe that the Legislation should be amended to clarify how the Program should be administered.

In a management letter to the Deputy Minister of Energy at the conclusion of the examination, I made the following recommendation:

> Department of Energy - Enhanced Oil Recovery program, method of determining relief
>
> **Recommendation No. 13**
>
> It is recommended that the Department of Energy seek amendments to section 11 of the Petroleum Royalty Regulation under the Mines and Minerals Act in order to clarify how the Enhanced Oil Recovery program should be administered.

Enhanced Oil Recovery program, accountability

The Department does not include information in its Annual Report on the costs and benefits of the Enhanced Oil Recovery program.

As indicated above with respect to the method of determining relief under the Enhanced Oil Recovery program, the cumulative cost of the Program amounts to several billion dollars. For the year ended March 31, 1991, the cost amounted to $198 million.

All significant financial information concerning the program needs to be reported to enable the Legislature to understand the Program's cost and effectiveness.

The cost of the Program is the relief provided against oil royalties. The Department could report, both cumulatively and for the year, the extent to which royalties on conventional and enhanced oil production have been reduced. The Department could also report the expected and actual increased production and royalties resulting from enhanced oil recovery projects.

The Department has recently agreed to improve the reporting of the Enhanced Oil Recovery program by disclosing the amount of the relief granted in its Annual Report.

In a management letter to the Deputy Minister of Energy at the conclusion of the audit, I made the following recommendation:

> Department of Energy - Enhanced Oil Recovery program, accountability
>
> **Recommendation No. 14**
>
> It is recommended that the Department of Energy disclose details, in its Annual Report, of the Enhanced Oil Recovery program in order to inform the Legislature about the extent of past and expected royalty relief, and the benefits of such relief.

Enhanced Oil Recovery, cost submission

The Department does not have guidelines for the review of cost estimates submitted by Enhanced Oil Recovery project operators.

Enhanced Oil Recovery project operators file estimated annual costs which determine monthly relief entitlements. At the end of the year, the Department adjusts relief entitlements for any difference between estimated and actual costs. It does not impose penalties for late filing of actual cost information, and does not charge interest on relief received in excess of entitlement. As a result, an operator can claim excessive relief based on an inaccurate cost estimate. During the audit, my staff found that estimated costs filed by certain project operators at the beginning of the year, resulted in approximately $5 million of excessive relief being given. However, this amount was subsequently recovered without interest or penalty being charged by the Department.

In a management letter to the Deputy Minister of Energy at the conclusion of the examination, it was recommended that the Department of Energy implement procedures to encourage Enhanced Oil Recovery operators to submit timely and accurate cost information.

Alberta Oil Sands Technology and Research Authority
year ended March 31, 1991

In addition to the annual financial audit, my staff completed an examination of the systems used by the Authority to monitor the research projects to which it provides financial assistance. The examination focussed on the Authority's approval, evaluation and reporting of the funded projects.

Annual Report to the Legislature

The Authority's annual report does not effectively communicate the extent to which objectives have been achieved.

The Authority is required by legislation to report its activities in an annual report to the Legislature. The annual report contains details of the research

projects funded by the Authority, but does not compare the progress or achievements of these projects to performance expectations set at the project approval stage. Neither does it relate project results to the Authority's research strategy nor measure the extent to which projects have contributed to the achievement of the Authority's mandate. Cumulative expenditures by the oil industry and the Authority on cost-shared activities between 1976 and 1991 amounted to approximately $1 billion. Of this approximately $597 million has been funded by the Province.

Research strategies normally extend beyond one year. In achieving the research objectives and priorities which form the strategy, it is often necessary to undertake projects with funding requirements spanning more than one fiscal year. Reporting which explains research activities in terms of their contribution to a defined research strategy would enhance the accountability of the Authority, and provide support for continued Provincial funding. I acknowledge that annual reports must respect the confidentiality of industry participants and technology.

In a management letter to the Chairman and Chief Executive Officer of the Authority at the conclusion of the audit, it was recommended that the Authority and the Minister of Energy examine ways in which the reporting of research activities can be improved to enhance accountability to the Legislature.

Alberta Petroleum Marketing Commission
year ended December 31, 1990

In addition to the annual financial audit, my staff completed an examination of the management and financial information systems used by the Commission to market the Crown's royalty share of crude oil. The systems examined included those for the measurement and reporting of achievements.

Reporting of achievements

The Commission's annual report does not effectively communicate the extent to which objectives have been achieved.

By legislation, the Commission is an agent of the Crown responsible for gathering and marketing crude oil received as royalty. In addition, the Commission carries out other activities which are discussed in its annual report. As the largest volume seller of crude oil in Canada, the Commission plays a significant role in maintaining a competitive price for crude oil. The Commission also explores new markets for Alberta sellers and provides input to regulatory decisions.

The Commission reports its activities in an annual report which is tabled in the Legislature by the Minister of Energy. The report provides an overview of the Commission's activities relating to crude oil and gas marketing operations and regulatory activities, but does not report the Commission's achievements in relation to stated objectives.

As a first step to improve the reporting of achievements, the Commission will need to formally define all of the objectives it seeks to pursue. Formal definition will result in the Commission expressing its activities in terms of the desired outcomes. It will then be able to establish measurement criteria to allow for the reporting of performance against objectives.

Better reporting would enable the Commission to demonstrate that it continues to be an essential component of the Province's mineral resource strategy following the deregulation of the oil and gas industry. Such reporting would also improve the Commission's accountability to the Legislature by permitting an assessment of the relevance of objectives and appropriateness of activities. I acknowledge that annual reports must respect the confidentiality of industry participants and technology.

In a management letter to the Chairman at the conclusion of the audit, it was recommended that the Commission improve the measurement and reporting of the results of activities so as to demonstrate the extent to which objectives have been achieved.

Management has indicated that every effort will be made to address my concerns in a comprehensive manner.

Energy Resources Conservation Board
year ended March 31, 1991

Production, Injection and Disposition system

In my 1989-90 annual report (page 58), I recommended that the Board improve its management of the Production, Injection and Disposition system by improving the quality of the information entered, and promptly resolving error messages and processing amendments. I am pleased to report that the Board has commenced initiatives to address my recommendations. A management reporting system has been developed which facilitates prompt follow up and monitoring of error messages. In addition, staff have been assigned to liaise with industry so as to improve the quality of information submitted.

Also in my 1989-90 annual report (page 59), I recommended that the Board carry out a post-implementation review of the Production, Injection and Disposition system, based on the objectives and requirements of the Board.

The system was fully implemented in June 1991. The Board planned to carry out a post-implementation review of the system in October 1991. The review was to examine the extent to which the system meets the Board's objectives. I will monitor the progress of this matter in future audits.

Other entities

Financial audits of the following were also completed:

Alberta Petroleum Incentives Program Fund - period ended May 29, 1990
Alberta Electric Energy Marketing Agency - year ended March 31, 1991
Province of Alberta Investment in Syncrude Project - year ended March 31, 1991
Public Utilities Board - year ended March 31, 1991
Take-or-pay Costs Sharing Fund - year ended December 31, 1990

Department of the Environment
year ended March 31, 1991

Monitoring enforcement

In my 1989-90 annual report (page 60), I recommended that the Department improve the way that it monitors the enforcement of environmental protection legislation contained in the Agricultural Chemicals Act and the Pesticides Sales, Use and Handling Regulation.

I am pleased to acknowledge that the Department has implemented procedures that have eliminated almost all of my previously reported concerns, and that further improvements are planned. For this reason, I am not repeating my previous recommendation.

Alberta Environmental Research Trust
year ended March 31, 1991

Board approval of non-routine expenditures

The procedures that the Board of Trustees has for ensuring that the Trust's non-recurring expenditures are properly approved and spent in an economical manner are not operating effectively.

The Trust finances the expansion of applied and fundamental research on environmental improvements. Its income consists mainly of grants from the Province's General Revenue Fund and Alberta lotteries. The Trust is administered by a Board of Trustees.

Among the Trust's 1990-91 non-recurring expenditures were a promotional video and a micro-computer system. Neither of the contracts for these expenditures were awarded through a formal tendering process, and the amounts paid were in excess of the amounts approved by the Board.

The computer system was purchased even though the Board had only approved the acquisition of a typewriter. A consultant was hired to advise on the purchase, and his contract also was not submitted to tender. Since the system purchased comprised commonly-used hardware and software, and the consultant's fee almost doubled the cost of the system, the value of the consulting services provided appears doubtful.

In a management letter to the Chairman of the Trust's Board of Trustees at the conclusion of the audit, it was recommended that all non-recurring expenditures be approved by the Board. It was also recommended that large contracts be awarded by tender and that the tendering process be documented to provide a management trail.

Water Resources Revolving Fund
year ended March 31, 1991

In addition to the annual financial audit, my staff completed an examination of the systems used by the Department of the Environment to acquire, manage and dispose of equipment of the Water Resources

Revolving Fund. The examination focussed mainly on control weaknesses identified during a similar examination in 1989-90.

Equipment acquisitions

In my 1989-90 annual report (page 61), I reported that the Department could not demonstrate that some of the equipment purchased for the Fund was needed or acquired in an economical manner. Some equipment had been purchased without following an acceptable tendering process. I recommended that the Department formalize its acquisition processes and documentation standards.

I am pleased to acknowledge that the Department has since formalized its procedures and documentation standards in a policy and procedures manual. Control over the acquisition of equipment has improved significantly.

Equipment utilization information and separation of duties

The asset management information available at Head Office is not yet sufficient to compensate for a concentration of responsibilities in the Department's main warehouse and repair shop.

In my 1989-90 annual report (page 62), I reported that the equipment utilization information used to manage the Fund's equipment was fragmented and incomplete. I also commented on the need for better controls to compensate for an extreme concentration of managerial responsibilities at the Department's main equipment repair shop and warehouse in Lethbridge.

I recommended the implementation of a system capable of providing management at Head Office and elsewhere with the cost, usage, breakdown, maintenance, and disposal information needed to manage the equipment owned by the Fund. I also recommended that the system be capable of providing the information needed by senior management at Head Office to exercise sufficient control to compensate for the extreme concentration of responsibilities.

I am pleased to acknowledge that action since taken by the Department has eliminated many of my previously reported concerns. A computer system now provides Head Office management with information on the cost, depreciation status, usage, and location of the Fund's equipment. In addition, management practices now appear more attuned to the control difficulties inherent in the Fund's main repair shop and warehouse being located so far from its Head Office. Assuming continued vigilance and use of the available information, Head Office management should now be better placed to exercise control over the Lethbridge operation.

More should be done, however, to further improve control and management's ability to manage the Fund's equipment and operations more effectively. For example, the computer system does not carry a history of breakdowns and repair costs. This information must be extracted from paper files in Lethbridge. Readily available information of this nature on equipment units would assist Head Office management when budgeting for acquisitions and approving decisions on whether to repair or replace.

Utilization information is now available on the computer system. It would be more useful, however, if the system could produce reports showing the utilization of units compared to expected utilization levels. There is also scope for strengthening the Fund's physical verification process and the methods used to identify individual equipment units.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department extend the asset management information that it retains on computer to include breakdown and maintenance data, and utilization rates and trends. Also, more conclusive ways of identifying and verifying the physical existence of equipment units were recommended.

I have been informed that the Department is committed to acquiring a computer-based asset management system capable of satisfying these and other information needs, though no formal timetable for implementation has yet been established.

Other entities

Financial audits of the **Alberta Special Waste Management Corporation** and the **Environment Council of Alberta** were also completed for the year ended March 31, 1991.

Department of Executive Council
year ended March 31, 1991

In addition to the annual financial audit, the following work was completed:

- Audits of numerous federal cost-sharing claims by Alberta Public Safety Services under the Joint Emergency Planning Program.

- An examination of the systems and methods used by Alberta Public Safety Services to plan, implement and deliver benefits under the 1990 Southeastern Alberta Disaster Assistance Program (Drought).

Alberta Public Safety Services - 1990 Southeastern Alberta Disaster Assistance Program

The Program provides assistance to farmers who have suffered through a decade of drought in southeastern Alberta. Originally, the Program allowed qualifying farmers to obtain ten year 9% loans, with interest forgiven for the first two or five years. Later, an Interest Benefit Option was added which pays to farmers grants equal to the interest that would have been forgiven if they had obtained loans.

A few loans were advanced in 1990-91, but essentially the Program was implemented in 1991-92. Financing and accountability to the Legislative Assembly is through Alberta Public Safety Services, and the Program is delivered through agencies of the Department of Agriculture.

The two recommendations which follow relate to this Program.

Program budgeting

Information about the 1990 Southeastern Alberta Disaster Assistance Program and its anticipated costs, which is included in the Province's 1991-92 Estimates of Expenditure, is seriously incomplete.

Before the Province's 1991-92 budget was finalized, estimates were submitted which indicated that Program costs would be $14 - $18 million. However, the Province's 1991-92 Estimates of Expenditure contain only $3 million to cover the Program's start-up costs, and no details of its name or nature. The amount of $3 million is included for the Department of Executive Council under Alberta Public Safety Services as vote 6.4 - Disaster Assistance.

The Legislative Assembly was not aware of the nature and costs of the Program until a special warrant for $33 million was obtained in October 1991 to cover the Program's 1991-92 costs. By that time, approximately $30 million had been spent and the Province was committed to a further $110 million over the remainder of the Program's life.

It is acknowledged that Alberta Public Safety Services usually obtains funding for disaster assistance by means of special warrants. This is because disasters cannot usually be anticipated. In this case, however, the disaster had already occurred, the response had been planned and cost estimates were available. By not budgeting the Program's anticipated costs, expenditures were incurred which had avoided unnecessarily the debate and legislative controls inherent in the budgetary process.

In a management letter to the Managing Director of Alberta Public Safety Services, with a copy to the Deputy Provincial Treasurer, Management and Control at the conclusion of the audit, I made the following recommendation:

> Alberta Public Safety Services - 1990 Southeastern Alberta Disaster Assistance Program, budgeting
>
> **Recommendation No. 15**
>
> It is recommended that all available cost estimates and program descriptions for new programs be included in the Province's Estimates of Expenditure for the year in which programs are implemented.

Program objectives

There are differing views as to the 1990 Southeastern Alberta Disaster Assistance Program's real objectives, and some of its eligibility criteria appear to be inconsistent with the Program's published objectives.

Alberta Public Safety Services views the Program as a long-term economic recovery program, the purpose of which is to sustain rural communities that have suffered economic hardship due to severe and prolonged drought conditions.

In some ways, this view of the Program's objectives is not shared by the staff who deliver the Program or the farmers of southeastern Alberta. The Program brochure published in March 1991 designates the Program as a disaster response, not an economic recovery program. The brochure states that the purpose of the assistance is to restore working capital and to establish the viability of farmers seriously affected by the drought. It states that the Program is intended to compensate farmers for crop losses or reduced incomes. It says nothing about sustaining the economies of their communities.

If the objectives articulated by Alberta Public Safety Services represent the Program's planned purpose, then the published objectives are misleading. For example, if the Program's real purpose is to sustain the economies of communities, then it is unclear why assistance is provided only to selected members of those communities. Overall, this underscores the importance of having and publishing well defined program objectives, and of communicating them clearly to all parties involved.

Some farmers and district office staff have been confused by apparent inconsistencies between the eligibility criteria used and the objectives set out in the brochure. Some farmers have received financial assistance even though they have considerable personal wealth or non-farm income. Irrigation farmers have received "drought" assistance under the Program. Farmers have received assistance by using area crop yields even though they may not have experienced the extended drought conditions suffered by others within their areas. Instances like these can result in suggestions that public money is being spent unnecessarily or unfairly.

In a management letter to the Managing Director, Alberta Public Safety Services at the conclusion of the audit, I made the following recommendation:

> Alberta Public Safety Services - 1990 Southeastern Alberta Disaster Assistance Program, objectives
>
> **Recommendation No. 16**
>
> It is recommended that Alberta Public Safety Services ensure that the objectives and rationale for the programs it initiates are clearly communicated to all concerned, particularly those people responsible for program delivery and those who are eligible to receive program benefits. In addition, eligibility criteria should be consistent with the published objectives of the programs.

ENTITIES ADMINISTERED BY MEMBERS OF THE EXECUTIVE COUNCIL

Certain members of the Executive Council have been charged by the Lieutenant Governor in Council with the administration of the following Acts:

- Interprovincial Lottery Act
- Metis Settlements Accord Implementation Act
- Racing Commission Act
- Wild Rose Foundation Act
- Workers' Compensation Act

My observations on the entities which operate pursuant to these Acts are, therefore, included here under Executive Council.

Lottery Fund
year ended March 31, 1991

In addition to the annual financial audit, my staff completed an examination of the financial and management controls used to administer the Community Facility Enhancement Program.

Accountability for lottery revenues

Accountability to the Legislative Assembly for the disbursement of lottery revenues is not complete.

In my 1989-90 report (page 64) and for several years previously, I have reported that lottery revenues have not been administered in accordance with the prevailing legislation. Each year, management has replied that lottery operations are being handled as required by the Interprovincial Lottery Act.

It appears that the reason management has decided not to act on my previous recommendations may be that the audit concern was presented as one of non-compliance with legislation. Although I am of the opinion that

there is still a lack of compliance with legislation, my primary concern is a lack of accountability for the disbursement of some lottery revenues. For this reason, I am directing my efforts this year towards convincing management and the Legislative Assembly of the need for greater accountability for approximately $13 million of lottery revenues.

The Western Canada Lottery Corporation operates lotteries on behalf of the three prairie provinces and the two territories. It receives lottery revenues and makes payments from those revenues for prize money and for the Corporation's administration costs. In addition, Alberta's share of the net lottery revenues is not paid to the Lottery Fund until after the Corporation makes the following payments on behalf of the Province:

a) for expenses incurred by the Provincial Marketing Organization to advertise and promote lotteries and distribute lottery tickets to retailers;

b) for expenses incurred by the Province's Program and Services Office to administer the payment of grants from the Lottery Fund; and

c) to the Government of Canada under a Federal-Provincial agreement to compensate the Federal government for its withdrawal from the lottery field.

The funds used to make these payments are part of Alberta lottery funds which have not been publicly accounted for.

One method of achieving accountability would be to make the payments referred to in (a), (b) and (c) above from the Lottery Fund. As the Lottery Fund's annual financial statements are included in the Public Accounts, public accountability for these funds would be achieved. The net lottery proceeds transferred from the Corporation to the Lottery Fund would increase correspondingly.

Alternatively, these payments could be made from the General Revenue Fund. This procedure would also achieve public accountability through the normal budgeting and reporting processes that apply to all General Revenue Fund expenditures.

In a management letter, at the conclusion of the audit of the Lottery Fund, to the Deputy of the Minister responsible for lotteries, I made the following recommendation:

Lottery Fund - Accountability for lottery revenues

Recommendation No. 17

It is recommended that the Minister responsible for administering the Interprovincial Lottery Act determine a way to achieve appropriate accountability for all lottery revenues.

Grant programs

The Community Facility Enhancement Program, which was introduced in October 1988, was a three year program for which grant funds of $100 million had been allocated on a cost-shared basis, for the repair, renovation, upgrading or expansion of community facilities in Alberta.

The examination of systems used to administer the grant Program revealed the following:

a) Information systems were not in operation to assist management in the assessment of overall community needs, and in the establishment of funding priorities for approving individual projects. Instead, community needs were considered on a one-by-one basis as applications for funding were received.

b) A plan to indicate how Program funding would address community needs had not been prepared. Such a plan would provide a basis for management to evaluate Program results.

c) The criteria established for determining the eligibility of projects were not complete. Several instances were noted where projects did not meet stated criteria, yet Program funding had been approved. In other instances criteria were met, but Program funding was not approved.

d) Instances were observed where the information provided by applicants was not sufficient to demonstrate the eligibility for funding.

e) Although grant recipients are required to account for the use of funds, it was noted that project accounting statements provided by grant recipients were not reviewed by Program staff.

Funds expended under this Program are invested in the construction or improvement of capital assets to assist in meeting long-term community needs. It is understood that Lottery Fund management believes that long-term planning is difficult because community needs can change quickly. However, if real long-term needs are to be satisfied, it is crucial to the success of such a Program that the needs are correctly identified and funded according to Program priorities.

In a management letter, at the conclusion of the audit, to the Deputy of the Minister responsible for lotteries, I made the following recommendation:

Lottery Fund - Grant programs

Recommendation No. 18

It is recommended that the systems used by the Lottery Fund to establish and administer grant programs be improved.

The Workers' Compensation Board
year ended December 31, 1990

In addition to the annual financial audit, my staff completed:

- An examination of the Board's systems used to identify and pay health care claims that are the responsibility of the Board.

- An audit of the charges made to the Federal government to recover the costs of claims for its employees during the year ended December 31, 1990.

Health care costs

The Board is not correctly identifying work related health care costs for which it is responsible. Errors can affect the annual assessments charged by the Board to employers in the Province.

The Board makes payments to the Department of Health for health care services that are the responsibility of the Board. Reliance is placed on service providers to identify work related injuries when they submit health care claims to the Department of Health. The Department does not recover from the Board claims paid when service providers fail to indicate work related injuries.

My staff compared claim payments made by the Department, for an eight month period, with information maintained by the Board for injured workers. This comparison was done because the Board has information which can assist in determining whether the Department or the Board is responsible for a claim. The comparison revealed work related costs which were not billed to the Board, and costs paid by the Board which were not work related.

Some improvement in control could likely be achieved if the Board periodically compared its records with the Department's health care claim diagnostic information and payments. These comparisons should not result in significant additional costs to either party.

In a management letter to the Chairman of the Board at the conclusion of the audit, it was recommended that the Board improve its controls to identify work related health care costs in order to assist the Department of Health recover costs which are the responsibility of employers through the Board.

Other entities

Financial audits of the following were also completed:

Alberta Racing Commission - year ended March 31, 1991
Metis Settlements Transition Commission - period ended March 31, 1991
Metis Settlements Transition Fund - period ended March 31, 1991
The Wild Rose Foundation - year ended March 31, 1991

Department of Family and Social Services
year ended March 31, 1991

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used to control expenditures under the Supports for Independence and Assured Income for the Severely Handicapped programs. This included examining the procedures used to promote compliance with the Department's program manuals, and reviewing the action taken to address recommendations from previous audits.

- Audits of the 1989-90 annual cost-sharing claims on the Government of Canada under the Canada Assistance Plan Agreement and the Vocational Rehabilitation of Disabled Persons Agreement.

Social allowance and assured income programs, payments

Supports for Independence provides people in need with the assistance necessary to promote health and well-being, and personal independence. Assured Income for the Severely Handicapped provides financial and health benefits for severely handicapped adults. During 1990-91, benefits to the Department's clients under the two programs cost $691 million and $153 million respectively.

In previous annual reports (1989-90 page 69), I expressed concern about the number and value of incorrect payments to clients. I reported that overpayments totalling an estimated $12.3 million were made in 1989-90. Too many incorrect payments were occurring which could have been avoided if caseworkers had exercised more care in using the information available on clients' files.

This year's audit revealed a substantial reduction in the administrative errors identified. As a result, I have not reported the incidence of incorrect payments occurring in 1990-91, nor have I repeated my previous recommendation to management.

Social allowance and assured income programs, eligibility for benefits

Departmental policies requiring the assessment of eligibility for program benefits under the Supports for Independence and Assured Income for the Severely Handicapped programs are not being complied with. The high rate of non-compliance with Departmental policy is cause for concern because it could result in payment errors.

An audit of 285 randomly selected client files revealed that 130 or 46% of the files contained evidence of failure to comply with the requirements of the Department's procedures manuals. Some files contained more than one such instance of non-compliance. The rate for a similar sample during 1989-90 was 48%.

Among the compliance deviations noted were: lack of evidence that the client's identity or dependents had been verified; failure to investigate suspicions that the client may have other sources of income; lack of employability assessments and related action plans; and failure to review

annually the circumstances of Assured Income for the Severely Handicapped clients to determine whether they still qualify for benefits.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Family and Social Services - Eligibility for benefits
>
> **Recommendation No. 19**
>
> It is recommended that the Department of Family and Social Services seek ways of improving compliance with established policies to determine the continued eligibility of beneficiaries under the social allowance and assured income programs.

Assured Income for the Severely Handicapped Program, cost-sharing

In my 1989-90 annual report (page 72), I recommended that the Department improve the potential for cost-sharing by requiring all clients who receive benefits under the program to disclose their assets and shelter costs.

To determine whether program costs are shareable with the Government of Canada, the Department must obtain details of clients' financial net worth and shelter costs. This information, however, is not required to assess the clients' eligibility for benefits under the program. Hence, some clients refuse to provide the information, thereby preventing the Province from applying for cost-sharing under the Canada Assistance Plan.

Recently, the Supreme Court of Canada upheld the Federal government's right to impose a limit on the total expenditures that can be claimed for cost-sharing by Alberta under the Canada Assistance Plan. This means that any additional program expenditures which could otherwise qualify as being shareable by obtaining details of clients' assets and shelter costs, would probably not increase the Province's future claims. My previously reported concern in this area has diminished considerably. I am therefore not repeating my previous recommendation.

Canada Assistance Plan, cost-sharing the expenditures of residential institutions

The system used to identify the costs incurred to maintain children in residential institutions does not identify all expenditures that are eligible for cost-sharing.

Certain expenditures for children in residential institutions are eligible for cost-sharing under the Canada Assistance Plan. The Department's new Residential Services Information System generates monthly occupancy reports. Clerical staff use these reports to identify residents who are under 18 years of age, and to manually calculate the shareable costs. Costs totalling approximately $20 million were included in the 1989-90 claim.

Errors occurred in identifying and calculating 1989-90 shareable costs. For example, some costs were not claimed because occupancy reports did not show the children's birth dates. Other costs were not claimed because the days in residence were calculated incorrectly. Many of these inaccuracies could be avoided by further automating the system.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department continue to pursue opportunities for improving the effectiveness of the system used to identify and calculate the shareable costs of children in residential institutions.

It is acknowledged that 1989-90 was a pilot year for the Residential Services Information System. I am informed that the accuracy and completeness of its data has since improved, and that further automation is being considered.

Canada Assistance Plan, cost-sharing the expenditures of funded agencies

The information needed to cost-share the expenditures of funded agencies is not being processed promptly.

Some of the expenditures of agencies funded by the Department can be cost-shared under the Canada Assistance Plan Agreement. Expenditures totalling $43 million were included in the 1989-90 claim. The information needed to support cost-sharing claims is obtained from the annual financial statements of the agencies. For practical purposes, estimates are used until such time as the annual financial statements of the agencies are available.

In April 1991, when the audit of the claim was completed, many of the financial statements for 1989-90 still had not been obtained, and a few were missing for prior years. As well, some statements that had been received had not been analyzed and processed. While it is acknowledged that any necessary adjustments can be made in future claims, I believe that more timely adjustments should be achievable.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the information from funded agencies, needed to adjust cost-sharing claims, be obtained and processed promptly.

Day care subsidies and operating allowances

In my 1989-90 annual report (page 71), I recommended that the Department resolve unreconciled differences between day care expenditures as reported by the Department's Day Care Information System and the Province's main expenditure system, thereby ensuring that all day care expenditures are assessed for cost-sharing.

I am pleased to acknowledge that the Department has reduced substantially the unreconciled differences between the expenditures recorded in the two systems.

Monitoring day care programs

The Department does not monitor the adequacy of day care centre programs to determine whether they are meeting the developmental needs of the children.

The Day Care Regulation requires day care programs to address the developmental needs of children. In other words, it calls for day care centres to offer quality day care programs, not just child-minding. In my 1989-90 annual report (page 73), I reported that the Department's licensing officers were still not assessing the developmental adequacy of day care programs, apparently because they did not feel qualified to do so. This situation persisted throughout 1990-91.

In a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

> Department of Family and Social Services - Day care monitoring
>
> **Recommendation No. 20**
>
> It is recommended that the Department of Family and Social Services improve its procedures for monitoring the adequacy of developmental programs provided by day care centres, and for following up and eliminating observed deficiencies in the programs.

I understand that the Department is planning to address this problem by having licensing officers complete assessment reports on developmental programs before licence renewals are approved. Implementation of assessment reports and introduction of a related instruction manual are planned for December 1992.

Child Welfare Information System

The Department's Child Welfare Information System does not provide accurate and complete information on children who are under the care of the Child Welfare Services Branch.

The Department's Child Welfare Services Branch provides services designed to ensure the survival, security and development of children under the Department's care. These services include operating child-care institutions and group homes, and contracting with community agencies to provide related services. The Branch also administers support agreements, supervision orders, foster care and adoption. The Child Welfare Information System was developed to provide caseworkers and senior management with access to information on the children who receive these services.

I first commented on deficiencies in the Child Welfare Information System following an audit completed in 1986-87. Some of the information regarding the children who receive services was inaccurate and difficult to use. In my annual reports since then (1989-90 page 74), I have acknowledged the efforts made to improve the information captured by the system. However, the situation has improved only marginally.

In a management letter to the Deputy Minister at the conclusion of the 1990-91 audit, it was again recommended that the Department make the Child Welfare Information System more effective by improving its ability to meet the operational needs of caseworkers and the information needs of the Department.

The Department has begun a major redevelopment project to address the system's inadequacies. Implementation of the new system is planned for June 1993.

Fraud investigations

The Department is still not promptly investigating situations where it has reason to suspect that program benefits have been obtained fraudulently.

In addition to the verification procedures carried out by caseworkers, the Department operates an Eligibility and Benefit Verification program. These procedures involve detailed reviews of the eligibility of a sample of clients to receive benefits. Where suspicions arise that benefits have been obtained fraudulently, the file is referred to the Department's Fraud Investigation Unit.

In my 1989-90 annual report (page 76), I commented on delays of up to two years in investigating referrals. I also expressed concern about inconsistencies throughout the Province in the Department's fraud investigation practices.

Since then, the Department has taken a number of measures to alleviate these problems. The Fraud Investigation Unit has been re-organized, and additional investigators and improved training have been provided. A new operations manual for investigators is being developed, and the Department plans to establish criteria to aid it in identifying the most critical investigations.

These efforts have removed my concerns about inconsistency. However, referrals from eligibility and benefit verification officers, from district offices and the public, have continued to increase the number of investigations required. The back-log at March 1991 was almost 1,500 referrals, which is not an improvement over the previous year.

I acknowledge that there is no easy solution to this problem. Even when fraud can be proven, the client often has insufficient assets to make prosecution worthwhile. Hence, doing more investigations may not be the answer, since recoveries may not justify the costs of the investigations. However, delays in initiating investigations increase the risk of further overpayments and reduce the likelihood of successful recovery. Additionally, prompt action would serve notice to the client community that the Department will not tolerate fraud. I endorse the Department's plan to maximize the effectiveness of its investigative resources by allocating them to cases that have the best chances of successful recovery.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

- Department of Family and Social Services - Fraud investigations

  Recommendation No. 21

  It is recommended that the Department of Family and Social Services continue its efforts to ensure that fraud investigations are carried out promptly.

Vocational Rehabilitation of Disabled Persons Agreement

The Department co-ordinates the rehabilitation services provided by itself, and other departments and agencies of the Provincial government. It also co-ordinates the preparation of claims for cost-sharing with the Government of Canada under the Vocational Rehabilitation of Disabled Persons Agreement.

The audit of the 1989-90 claim revealed that several departments and agencies had submitted their interim claims infrequently and late. Many interim claims contained clerical errors and failures to comply with the requirements of the Agreement. Much responsibility for these problems must lie with the departments and agencies concerned. But, in view of the co-ordinating role carried out by the Department of Family and Social Services, recommendations related to claims are included hereunder.

Vocational Rehabilitation of Disabled Persons Agreement, delays in submitting cost-sharing claims

Cost-sharing claims are not being submitted promptly to the Government of Canada. The final claim for 1989-90 was not filed until the end of April 1991.

Canada allows the Province to submit interim cost-sharing claims based, where necessary, on estimated expenditures. As the total claimed for 1989-90 exceeded $19 million, the prompt submission of claims is obviously in the Province's financial interest. Despite this, most interim and final claims for 1989-90 were submitted much later than necessary. For example, many interim claims were not submitted until 1991, and one claim for $836,000 was submitted nearly two years after it could have been.

At present, each department and agency prepares and submits its own interim claims. Some of these are submitted infrequently and contain numerous and significant clerical errors. There are also indications that staff in some departments and agencies were not sufficiently familiar with the conditions of the Agreement.

The Province would benefit financially from the Department extending its co-ordinating role to include reviewing interim claims, and monitoring their prompt submission.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Family and Social Services - Claims for cost-sharing under the Vocational Rehabilitation of Disabled Persons Agreement
>
> **Recommendation No. 22**
>
> It is recommended that the Department of Family and Social Services take responsibility for ensuring that interim cost-sharing claims under the Vocational Rehabilitation of Disabled Persons Agreement are submitted more frequently, and that final claims are submitted promptly.

Vocational Rehabilitation of Disabled Persons Agreement, delays in approving shareable expenditures

Unnecessary delays are occurring in obtaining approvals from the Government of Canada for shareable expenditures. Also, there is delay in including approved expenditures in cost-sharing claims.

Under the Agreement, expenditures cannot be cost-shared until their purpose, and the agency to which they are paid, are approved by the Government of Canada. Pending approval, the Department accumulates these expenditures in "holding codes." Sometimes expenditures remain in holding codes much longer than necessary, thus delaying the receipt of the Province's cost-sharing revenues.

For example, at March 1991, approved expenditures totalling $288,000 were still in holding codes, and $55,000 of them had been there since March 1990. A further $550,000 of claimable expenditures were also in holding codes awaiting the information needed to approve them. This information had been asked for by the Federal government in November 1990.

Further expenditures, of which more than $880,000 will be claimable, were also in holding codes for which no approval application had been made to Health and Welfare Canada.

Delays in obtaining approvals and including expenditures in claims, postpone the receipt of cost-sharing revenues. Such delays result in the Province incurring unnecessary interest costs. A tracking system is needed that can monitor the status of expenditures in holding codes to ensure that eligible expenditures are claimed as soon as possible.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Family and Social Services - Delays in obtaining approvals for cost-shareable expenditures
>
> **Recommendation No. 23**
>
> It is recommended that the Department of Family and Social Services, and other claiming departments and agencies, ensure that all shareable costs are approved and included in claims under the Vocational Rehabilitation of Disabled Persons Agreement as soon as possible.

Vocational Rehabilitation of Disabled Persons Agreement, prior years' claims

In my 1989-90 annual report (page 75), I explained how, by using estimates rather than the actual expenditures, the Department had significantly underclaimed the expenditures of sheltered workshops eligible for cost-sharing with the Government of Canada. I recommended that the Department go back and review, and revise as necessary, prior years' claims for these expenditures.

The Department has submitted, and agreed with the Government of Canada, revised claims for 1986-87 and 1987-88. Due to difficulties in obtaining the necessary information, however, it has been unable to submit revised claims for earlier years. I am satisfied that the Department did all

in its power to address my recommendation, and therefore I am not repeating my previous recommendation.

Personal Care Services

In my 1989-90 annual report (page 77), I commented on the need for regulations and guidelines to define and formalize the Department's responsibilities for providing personal care services to the disabled. These are the services that allow disabled people to live in the community, rather than in institutions. I also recommended a better system for recording and monitoring the nature, extent and cost of the services provided.

I am pleased to acknowledge that an amendment to the Social Allowance Regulation has been approved and that a new manual now provides the necessary program delivery guidelines. A new system to record and monitor the services provided is being implemented. As a result, my concern in this area has now been resolved.

Department of Federal and Intergovernmental Affairs
year ended March 31, 1991

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Department of Forestry, Lands and Wildlife
year ended March 31, 1991

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Department to provide forest managers with the information needed to manage and control forest resources on a sustained yield basis.

- An examination of the systems used by the Automated Information Services Division for planning, budgeting and monitoring manpower costs of systems development and maintenance.

Reforestation systems

The quality of the information the Department uses to assess the growth of new forests needs to be improved.

The Department has adopted a sustained yield policy of which reforestation is an essential component. The objective is to balance the volume of timber cut with the growth of new trees to ensure a continuous supply of marketable timber. The Department designates the volume of timber that can be cut in a year as the annual allowable cut.

The sustained yield policy requires periodic adjustment of the annual allowable cut. Adjustments are influenced by information on factors such as regional variations in tree growth, reforestation success, fire losses, results of forest inventory and permanent sample plot data. Significant losses such as those arising from major forest fires or insect epidemics result in immediate recalculation of the annual allowable cut.

The Department uses a model for projecting future timber yield based on the growth pattern of new trees. Projection of the estimated growth, based on reliable data, is thus one of the critical factors which impacts the annual allowable cut. Reliability of the estimated growth could be improved by the collection of better growth and yield information. This could require that more permanent sample plots be established and maintained to provide the necessary data.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department improve the quality of information it uses for monitoring estimated and actual growth of new trees.

The Department has agreed that the collection of more growth and yield data will permit improved calibration of the modelling program. Action is being taken or proposed to strengthen the coordination of activities within the Department and with the forest industry, to improve methods of monitoring estimated and actual growth of new trees.

Other entities

Financial audits of the following were also completed:

Fish and Wildlife Trust Fund - year ended March 31, 1991
Forest Development Research Trust Fund - year ended March 31, 1991
Forestry, Lands and Wildlife Revolving Fund - year ended March 31, 1991

Department of Health
year ended March 31, 1991

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Department to determine if the program objectives of community mental health services are being met.
- An examination of the systems used by the Department to set rates to be charged by hospitals for services not covered by hospitalization benefits.
- An examination of the Department's assessment of its implementation of the health care registration computer system.

Community Mental Health Services, program delivery

The Department has not determined whether community mental health services are being delivered economically and whether its objectives are being met.

The Department provides community mental health services through approximately 100 clinics. The locations and staffing levels of existing clinics, which cost approximately $30 million to operate in 1990-91, have remained relatively unchanged since their establishment in 1972.

Costs of operating many clinics are not available to the Department. Also, the Department lacks information on whether its clinics are achieving program objectives. At present, the only information available relates to resources used and activities undertaken. The Department's community mental health program objectives were not consistent with those of its clinics. For example, the Department's objective that clinics should provide specific training was not pursued by all clinics.

Community mental health services are also provided by hospitals, extended care centres, psychiatric offices, public health units, the Department of Family and Social Services and the Alberta Alcohol and Drug Abuse Commission. The Department's objective relating to the co-ordination of services provided by its clinics with those of other agencies was not acted upon at the clinic level.

The Department should reassess its Community Mental Health Services program to determine whether cost savings can be realized from the elimination of duplicate services. It should also obtain the information necessary to assess the costs and benefits of each of its clinics.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Health - Community Mental Health Services, program delivery

Recommendation No. 24

It is recommended that the Department of Health acquire the information necessary to ensure that its community mental health services are managed in the most cost-effective manner.

Hospital rates used to bill non-eligible patients

The daily rates charged by hospitals to non-eligible patients do not recover the costs of services provided to them.

The Department sets rates that hospitals can charge for services to patients who are not eligible to receive Provincial health benefits. Such patients, for example, include residents of other Provinces who wish to use the specialized medical services available in Alberta. Rates set include inpatient rate per day, outpatient rate per visit, and rates for selected inpatient and outpatient high-cost procedures, such as organ transplants, magnetic resonance imaging scans, and special implants. Rates are based on recommendations received from an interprovincial committee on institutional and medical services.

The hospitals reported approximately $72 million in revenue during 1989-90 from non-eligible patients. The Audit Office estimates that the cost of providing medical services to non-eligible patients exceeded the reported revenue by approximately $6 million.

The under-recovery of costs results from inappropriate use of the rate structure, in that certain expensive procedures have not been classified as high-cost procedures with an appropriate rate. For example, daily rates, rather than high-cost procedure rates, are charged for certain expensive open heart surgery procedures. This results in the under-recovery of the actual cost of the expensive procedures performed.

The Department also lacks information to monitor whether, over the course of time, rates set continue to recover the actual cost of hospital medical procedures.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Health - Hospital rates used to bill non-eligible patients

Recommendation No. 25

It is recommended that the Department of Health review the rates used by hospitals to charge non-eligible patients to ensure that the costs of medical procedures provided are recovered.

Computer systems at hospitals

In my 1989-90 annual report (page 83), I recommended that the Department of Health, in conjunction with the Alberta Hospitals Information Technology Advisory Council, finalize its strategic plan for information technology in Alberta hospitals. I commented that the completion of a plan is especially important as the Department's survey of hospital information systems revealed that significant expenditures will occur over the next three years.

The Council consists of representatives from hospitals and the Department. It recommends policies and directions to the Deputy Minister on information technology issues at Alberta acute care hospitals. The Department has taken significant steps in the development of strategic directions to ensure that duplications in system development are eliminated and that efficiencies are realized. It has encouraged hospitals to pool their resources and is encouraging joint ventures between hospitals for the development of computer systems.

As a result of the Department's action, I am not repeating my previous recommendation. The benefits realized from the strategies adopted will be reviewed during the course of future audits.

Services provided at hospitals

In my 1989-90 report (page 85), I recommended that the Department consider changes in its systems and procedures to ensure that services were provided free of charge only to persons registered with the Alberta Health Care Insurance Plan.

Hospitals provide services free of charge to health care registrants if they produce their Alberta Health Care card or later telephone the hospital with their registration number. There is no confirmation with the records of the Alberta Health Care Insurance Plan that the person receiving the service is actually registered at the time the service is provided.

The Department has indicated that it will take certain actions, consistent with legislative requirements, to ensure that the hospitals provide free services only to those who are registered with the Alberta Health Care Insurance Plan. I have, therefore, not repeated my previous recommendation. Action taken by the Department will be reviewed during the course of future audits.

Claims from physicians for services performed at hospitals

In my 1988-89 and 1989-90 (page 86) reports, I recommended that the Department verify physicians fee-for-service claims by checking them against the hospital records provided to the Department.

The Department has reviewed this recommendation and believes that its initiatives will address the issue of whether the services billed were in fact provided. For this reason, the recommendation is not repeated. Action taken by the Department will be reviewed during the course of future audits.

Hospitalization charges recoverable from The Workers' Compensation Board

Certain hospital costs which are recoverable from The Workers' Compensation Board are not identified and, therefore, not charged to the Board. As a consequence, costs that should be charged to employers are paid by the Province.

In my 1988-89 and 1989-90 (page 87) reports, I recommended that the Department require hospitals to recover all amounts that are the responsibility of The Workers' Compensation Board.

The Department already maintains certain claims data which could be used to identify instances where hospitals have not billed the Board for hospitalization charges.

As my concern has not yet been resolved, in a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

> Department of Health - Hospitalization charges recoverable from The Workers' Compensation Board
>
> **Recommendation No. 26**
>
> It is recommended that the Department of Health require hospitals to recover all amounts that are the responsibility of employers through The Workers' Compensation Board.

I also made a similar recommendation for practitioners' medical claims paid by the Health Care Insurance Fund which are required to be recovered from the Board (page 83).

Funding of capital equipment at hospitals

The Department has not yet improved its system for the long-term funding of hospital equipment purchases as recommended in my 1989-90 report (page 83).

The Department estimates that equipment costing approximately $1 billion is currently in use at Alberta hospitals. The Department regularly receives requests for funds to replace this equipment and to acquire new and expensive high-technology equipment. Hospital equipment needs for the five years ending March 1995 are projected to total approximately $330 million.

As the annual funding available is limited to approximately $30 million, the Department should establish a way to fund equipment based on priority. At the moment, the Department lacks sufficient information to determine priority.

To establish priority, the Department requires such information as:

- each hospital's equipment priorities, and the impact on its program delivery of not obtaining the requested equipment,

- the condition and age of existing equipment, and
- the potential for the sharing of expensive equipment.

The Department provides certain equipment grants to hospitals, as specified in the Alberta Hospitalization Benefits Regulation, based on rated bed capacity. Since this Regulation was established, there have been considerable changes in program delivery at hospitals. The increased emphasis on non-institutional health care has resulted in increased outpatient activity. Therefore, rated bed capacity may no longer be an appropriate basis for determining priority.

In a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

Department of Health - Funding of capital equipment at hospitals

Recommendation No. 27

It is recommended that the Department of Health improve its systems for determining the equipment priorities of hospitals and how they can be funded.

Alberta Alcohol and Drug Abuse Commission
year ended March 31, 1991

Federal cost-sharing claims

The Commission's cost-sharing claims under the Vocational Rehabilitation of Disabled Persons Agreement often contain inaccuracies and are not being completed promptly. These delays have a cost to the Province.

Some of the Commission's expenditures on the rehabilitation of people disabled by alcohol or drug addiction are shareable with the Government of Canada under the Vocational Rehabilitation of Disabled Persons Agreement. The Commission's claim for 1989-90 was $9 million.

Only three interim claims were prepared for 1989-90. All were submitted for payment considerably after the periods to which they related. For example, the claim for expenditures to March 1989 was not submitted until January 1990. It could have been submitted in May 1989, based if necessary on estimated expenditures. Submission and payment of the final 1989-90 claim was also delayed. The claim, which totalled $560,000, was not in the form required by the Agreement. As a result, it was returned and was not finalized until November 1990.

The claims contained numerous clerical errors. For example, adjustments of approximately $400,000 were required as a result of clerical errors on a worksheet used to prepare and summarize the claims. In addition, advertising expenditures otherwise claimable were disallowed because the Commission had not complied with the terms of the Agreement which require advertisements to disclose that the program is a co-operative effort of the Province and the Government of Canada. As a result, the Province was unable to claim $31,000.

In a management letter to the Chief Executive Officer of the Commission at the conclusion of the audit, a number of recommendations were made to address the problems encountered. In summary, it was recommended that the Commission submit cost-sharing claims under the Vocational Rehabilitation of Disabled Persons Agreement promptly and accurately, and ensure that eligibility criteria for expenditures are met.

Health Care Insurance Fund
year ended March 31, 1991

Health care payments

The Department's system for processing health care claim payments results in significant overexpenditure. These deficiencies were originally identified and reported six years ago. In my 1989-90 report, I reported my concerns on page 87.

The Department receives claims from medical practitioners for services provided to Albertans. Claim payments are based on the type of services provided as specified in the schedule of medical benefits. If the practitioner's claim indicates a work related injury, the fee is recovered from The Workers' Compensation Board.

Based on audit tests, it was estimated that overpayments to practitioners and under-recoveries of claims from the Board for the 1990-91 year amounted to approximately $10 million (1989-90 $4.2 million).

Overpayments result from the inappropriate application of the schedule of medical benefits and inadequate computer validation of claims. Under-recoveries result from inadequate procedures to identify claims that are the responsibility of the Board. The Department does not compare its records of claims paid with those of the Board to identify under-recoveries.

The Department is reviewing several options to deal with under-recoveries of claims, however, the overpayments and under-recoveries continue to be significant. When accumulated over time, they represent cause for considerable concern.

In a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

Health Care Insurance Fund - Health care payments

Recommendation No. 28

It is recommended that, in relation to the administration of the Health Care Insurance Fund, the Department of Health improve its systems in order to reduce inappropriate claim payments and to ensure that claims that are the responsibility of employers are recovered through The Workers' Compensation Board.

I also made a similar recommendation for hospitalization costs which are required to be recovered from the Board (page 81).

Reciprocal agreement

In my 1989-90 report (page 88), I recommended that the Department of Health sign a reciprocal agreement for the provision of health services to non-residents with the Province of Saskatchewan. I am pleased to report that the agreement has now been signed.

Alberta Blue Cross program administration costs

In my 1989-90 report (page 88), I reported that the Department had not signed an agreement with Alberta Blue Cross for payments for programs administered by that organization. I am pleased to report that the Department has now signed a new agreement with Alberta Blue Cross.

HOSPITALS

The Provincially-owned hospitals and their related foundations operate under the authority of the Provincial General Hospitals, Cancer Programs, University of Alberta Hospitals and University Hospitals Foundation Acts. The financial statements of these Provincial corporations are not included in the Public Accounts, nor are the entities reflected in the consolidated financial statements of the Province. The Minister of Health, who is charged with the administration of the above Acts, is required to table annually copies of the audited financial statements of these hospitals.

Alberta Hospital Edmonton
year ended March 31, 1991

In addition to the annual financial audit, my staff completed an examination of the systems used by the Hospital to develop and implement its computer system.

Computer system

Management of the development and implementation of the Hospital's new computer system is weak. The Hospital is therefore exposed to a risk that the project may not be successful.

The Hospital Board approved the acquisition of a new computer system at a cost of approximately $2.2 million. The new system, which is to be fully implemented in two and a half years, will support all Hospital departments, which includes finance, administration, clinical and research. The development and implementation of the system is being managed by the Finance Department.

Responsibilities for providing direction on project scope, approving project plans, monitoring progress and costs, and ensuring that benefits expected from the system are realized were not assigned. It was noted that the Hospital's Information Systems Steering Committee was not fully operational and its terms of reference did not address project management issues. It was further noted that a number of persons assigned to the project had not previously been involved in the development of a major computer system and were unsure of their responsibilities for determining system requirements. Also, project budgets and work plans had not been established.

A project steering committee comprised of senior management, who are accountable for the success of the new system, is required. The steering committee should assume responsibility for providing direction in the management of the project.

In a management letter to the Chairman of the Executive Committee of the Hospital at the conclusion of the audit, I made a number of recommendations which are summarized as follows:

Alberta Hospital Edmonton - Computer system

Recommendation No. 29

It is recommended that the Alberta Hospital Edmonton review the management of the development and implementation of its new computer system to ensure successful implementation.

Foothills Provincial General Hospital
year ended March 31, 1991

Patient charges

In my 1989-90 annual report (page 92), I reported that the Hospital's system for billing patient charges was inadequate. The Hospital was not invoicing all billable patients, and incorrect billing rates were being used.

During 1990-91, the Hospital took action to address my recommendation. Pending the computerization of its billing systems, steps have been taken to manually identify and recover all patient charges at the correct rates. I am pleased to report that no billing errors were noted in the 1990-91 audit.

University Hospitals Board
year ended March 31, 1991

In addition to the annual financial audit, my staff completed a review of the systems used to monitor and control payments for services provided by certain physicians, and payments for radiology interpretation services at the Hospitals.

Payment of certain physicians' salaries

The Hospitals are processing payments for certain physicians' salaries without up-to-date information.

The University of Alberta and the Hospitals have an agreement for the joint appointment of physicians. The Hospitals receive monthly billings from the University for services provided to the Hospitals by physicians who are on the University's payroll.

The Hospitals process the billings for payment using a list of approved salaries that is not up-to-date. In several instances the amount billed was higher or lower than the salary shown on the approved list. The University billing is often the first indication to those responsible for processing payments that salary rates have changed. Payments are delayed while staff follow up changes with those who are aware of the payment arrangements for each physician.

Changes to physicians' appointment status are not always communicated promptly. For example, in one instance the University was reimbursed a salary for two months following the effective date of a termination.

The Hospitals are currently developing a new management information system that may assist in the administration of payments for physicians on joint appointments.

In a management letter to the President at the conclusion of the audit, it was recommended that the Hospitals continue to improve the systems used for the payment of salaries for physicians on joint appointment with The University of Alberta.

Interpretation services

The Hospitals approve payments for radiology interpretation services without defined performance expectations.

The Hospitals have entered into a contract with their radiologists for interpretation services. Radiologists billed the Hospitals approximately $2.4 million in 1990-91.

The contract does not indicate the level of performance expected of radiologists. Contract terms could define expectations in terms of volume of services, response time, and availability of services.

Billings to the Hospitals are presently supported by a report which shows the number of interpretations performed for each category of examination. Although the monthly report is reviewed before payment is authorized, specific criteria to assess whether the services were performed and whether the fees were reasonable are not used.

My intent is not to question the integrity of the radiologists but to improve the internal control systems at the Hospitals. The Hospitals should only make payments when they can demonstrate that the fees charged are reasonable.

In a management letter to the President at the conclusion of the audit, it was recommended that the Hospitals define criteria to assess the interpretation services performed and the reasonableness of fees charged.

Foundations

My reports on the financial statements of the following Foundations for the year ended March 31, 1991, contained reservations of opinion because, as explained on page 110 of this report, the Foundations receive donation revenue which is not susceptible of complete audit verification:

Alberta Cancer Foundation
Alberta Hospital Edmonton Foundation
Charles Camsell Provincial General Hospital Foundation
Northern Alberta Children's Hospital Foundation
University Hospitals Foundation

Other entities

Financial audits of the following were also completed for the year ended March 31, 1991:

Alberta Cancer Board
Alberta Children's Provincial General Hospital
Alberta Hospital Ponoka
Calgary Area Hospital Advisory Council Fund
Charles Camsell Provincial General Hospital
Glenrose Rehabilitation Hospital
Northern Alberta Children's Hospital

Department of Labour
year ended March 31, 1991

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Other Entities

Financial audits of the following were also completed:

Long-Term Disability Benefit Fund - Management, Opted Out and Excluded - year ended March 31, 1991
Long-Term Disability Benefit Fund - Bargaining Unit - year ended March 31, 1991
Personnel Administration Office Revolving Fund - year ended March 31, 1991

Department of Municipal Affairs
year ended March 31, 1991

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Alberta Mortgage and Housing Corporation
year ended March 31, 1991

In addition to the annual financial audit, the following work was completed:

- An audit of the financial statements of the subsidiary corporation, Mortgage Properties Inc., for the period ended March 31, 1991.
- An examination of the systems used by the Corporation to monitor mortgagors' compliance with Core Housing Incentive Program and Modest Apartment Program guidelines.
- Audits of the 1990-91 cost-sharing claims under the National Housing Act (Canada) for non-profit housing, rent supplement and rural and native housing - homeownership and rental programs.

In my last four reports to the Legislative Assembly, I have commented on deficiencies in the management information available at the Corporation and the systems used by the Corporation to administer its mortgages, and its land and housing investments.

During the current year, a major re-organization of the Corporation's activities and corporate structure has taken place. The Department of Municipal Affairs is now responsible for the management and administration of the Corporation. A subsidiary, Mortgage Properties Inc., has been established to dispose of the mortgages, and the land and real estate investments that are surplus to the needs of the Corporation.

Also during the current year, the Corporation liquidated mortgages, real estate and land investments with a book value of approximately $931 million.

The following deficiencies have not yet been resolved.

Housing information systems

In my 1989-90 annual report (page 97), I commented that the information systems used by the Corporation to administer its housing program are seriously deficient. The deficiencies have not yet been rectified.

Housing program assets held by the Corporation at March 31, 1991 were valued at $1,075 million. These assets include land, buildings, furniture, fixtures and equipment. The assets are used in a number of sub-programs

and housing projects which are provided to assist senior citizens and other persons with limited incomes or with special needs.

It was again noted that information required to manage the Corporation's housing program is deficient. Information on the costs, identification numbers, locations and expected useful lives of furniture, fixtures and equipment items is not available on the many computer systems maintained by the Corporation. It was observed that some purchases of furniture, fixtures and equipment are included in the capital cost of buildings whereas other similar purchases are expensed in the year of acquisition. Similarly, improvements to or construction of additions to senior citizens' lodges are recorded as assets for certain projects, and as expenditures for other projects. Furthermore, certain capital assets are not amortized and certain other capital assets are amortized over periods longer than their useful lives.

The lack of adequate housing information and the failure to correctly allocate capital costs to the years in which these costs are consumed raises concerns about the Corporation's ability to properly assess the cost-effectiveness of its sub-programs and housing projects. Reported annual costs of the various housing projects are not comparable on a year to year basis or on a project to project basis. Furthermore, the current housing information available is insufficient for the physical inspection of moveable assets, or as a basis for budgeting future replacement costs.

There is a further concern that transferring, checking and reconciling data between the large number of non-integrated housing systems significantly increases administration costs.

The Corporation has stated that an overall review of its social housing programs and its housing computer systems i. being carried out. The review will encompass the Department's Housing Division computer systems. This review is intended to determine the longer term social housing program systems requirements. The Corporation has also stated that some of its existing accounting practices were adopted to facilitate the preparation of housing program claims under cost sharing arrangements with Canada Mortgage and Housing Corporation.

The value of integrating the Corporation's systems with those of the Department is acknowledged. However, until new systems are implemented, the Corporation's ability to satisfactorily manage its housing program will continue to be impaired.

In a management letter to the Corporation's Acting President at the conclusion of the audit, I made the following recommendation:

> Alberta Mortgage and Housing Corporation - Housing information systems
>
> **Recommendation No. 30**
>
> It is recommended that the Alberta Mortgage and Housing Corporation improve the systems used to provide information needed to manage its housing programs, and eliminate the inefficiencies in these systems.

Subsidized housing

In my 1989-90 annual report (page 100), I commented that some tenants occupying subsidized housing units may not be entitled to the subsidies provided by the Corporation. This problem has not yet been resolved.

The Corporation provides housing subsidies to moderate and low income tenants. The Corporation's policies require that tenants in subsidized housing demonstrate their need for subsidies through income and asset tests. The amount of subsidy provided by the Corporation is based on the income test.

The audit for the current year again revealed a significant number of instances where the Corporation has not correctly applied the above policy. In most of these instances, the subsidies provided to tenants were not demonstrated by financial need. In other instances, applicants were rejected for reasons that were not consistent with the Corporation's policy.

In a management letter to the Corporation's Acting President at the conclusion of the audit, it was again recommended that the Corporation comply with its policy for verifying whether tenants are eligible for rent subsidies and for determining the amounts of those subsidies.

The following previously reported deficiencies have been resolved.

Mortgage administration systems

In my 1989-90 annual report (page 98), I reported that the Corporation needed to improve the management information systems used by the Corporation to administer the Core Housing Incentive Program and Modest Apartment Program mortgages.

The inadequacies of the system related to the 1987 restructuring of the mortgages. The Corporation had to make manual adjustments to properly record mortgage repayments and mortgage balances on restructured mortgages. Also, the legal documentation was incomplete for most of the restructured mortgages.

The Corporation held 416 Core Housing Incentive Program and Modest Apartment Program mortgages at March 31, 1991, valued at $592 million. Approximately 300 of these mortgages have been in arrears for several years.

Mortgage Properties Inc., a subsidiary of the Alberta Mortgage and Housing Corporation, is now administering the mortgages with the intention of disposing of the mortgages in the near future. It has implemented a computer system which is able to record transactions resulting from the revision of the mortgage conditions. Some adjustments will continue to be handled manually.

As a result of the above action, my previous recommendation is not repeated.

Foreclosure guidelines

In my 1989-90 annual report (page 100), I recommended that the Corporation implement comprehensive foreclosure guidelines as soon as possible to protect its mortgage portfolio. I reported that the Corporation had developed and obtained Board approval for formal foreclosure guidelines. These guidelines indicated the nature and timing of foreclosure procedures, the level of approval required when alternative action is taken, and also provided guidance on the action to be taken when guarantees had been provided by third parties.

Mortgage Properties Inc., a subsidiary of the Alberta Mortgage and Housing Corporation, is now administering the mortgages for the Corporation and I am pleased to report that it is using appropriate foreclosure guidelines.

Other entities

Financial audits of the following were also completed:

Improvement Districts' Trust Account - year ended December 31, 1990
Alberta Planning Fund - year ended March 31, 1991
Metis Population Betterment Trust Account - period ended October 31, 1990
Metis Settlements Trust Fund - period ended October 31, 1990
Special Areas Trust Account - year ended December 31, 1990

Department of Public Works, Supply and Services
year ended March 31, 1991

In addition to the annual financial audit, my staff completed an examination of the administrative controls exercised by the Purchasing Branch over the use of direct purchase orders.

Direct Purchase Order system

The Purchasing Branch is not controlling the use of direct purchase orders by departments.

Government departments purchase their supplies through the Purchasing Branch as prescribed by legislation. However, departments may purchase directly from a supplier, subject to certain conditions. For example, direct purchases over $250 require at least two price quotations; direct purchases over $1,000 require a full description of the emergency circumstances and the prior authorization of the Branch. It is estimated that direct purchase orders number about 250,000 per year and account for between $60 and $100 million of supplies. Purchasing Branch is responsible for monitoring the use of direct purchase orders and a copy of every direct purchase order must be sent to the Branch for monitoring purposes.

An audit test of direct purchase orders indicated many instances of purchase orders issued where the required two quotations were not obtained or the emergency circumstances were not clearly indicated or the required pre-authorization was not received. Furthermore, the Branch did not receive the required copies of all direct purchase orders, and was unable to identify direct purchases from information on the Province's payment system. It was also noted that the Purchasing Branch was not assessing the extent to which the departments' use of direct purchase orders circumvents normal government purchasing procedures.

A concern exists that the system is not being used as planned and therefore the departments are not obtaining the savings and benefits that the Purchasing Branch requirements are expected to provide. The Branch should re-examine the way in which the direct purchase order system is used and effect any necessary changes.

In a management letter to the Deputy Minister at the conclusion of the audit, several recommendations arising from the above observations were made, the focus of which was that the Purchasing Branch should reassess its procedures to control and monitor the use of direct purchase orders.

Other entities

A financial audit of the **Public Works, Supply and Services Revolving Fund** was also completed for the year ended March 31, 1991.

Department of Recreation and Parks
year ended March 31, 1991

In addition to the annual financial audit, my staff completed an examination of the management information systems used by the Recreation Development Division to administer its grant programs.

Control over grants

The Department is not adequately controlling the allocation of grants made under its recreation development programs.

The Department's legislative mandate is to promote and encourage the orderly development of recreational activities and facilities for the betterment of the people of Alberta. It does this by providing financial assistance and consultation services to individuals, community groups, municipalities and other interested parties.

In 1990-91, under the Municipal Recreation and Tourism Areas program, $5 million was given to municipal and community associations for developing and maintaining municipal recreation and tourism facilities. Under the Community Recreational and Cultural program, $20 million was paid to municipalities, volunteer community groups and various cultural and recreational organizations for the development, operation and maintenance of facilities, as well as for cultural programming and planning.

The Department has, in effect, relied on the municipalities in the case of the Community Recreational and Cultural program, and on the Members of the Legislative Assembly with respect to the Municipal Recreation and Tourism Areas program, to review and recommend projects and organizations to receive grant funding. Although this delegation has been made, the Department remains responsible for the effective use of the grant funds.

In most cases, the Department does not have information on the criteria used to select grant recipients. The Department would be in a better position to know if grants were made where the need is greatest, if it obtained the criteria used by the municipalities and Members of the Legislative Assembly to select grant recipients. The Department could also improve its management information by obtaining more detailed information about the purpose of specific grants, and better support for project costs.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Recreation and Parks - Control over grants
>
> **Recommendation No. 31**
>
> It is recommended that the Department of Recreation and Parks improve the management information used to allocate funds available under the Community Recreation and Cultural and the Municipal Recreation and Tourism Areas grant programs.

Monitoring the use of grant funds

The Department does not obtain sufficient information from Community Recreation and Cultural Program grant recipients to determine that funds have been used for their intended purpose.

At present, grant recipients are asked to file a final report with the Department within two years of receiving funds. These reports only state that funds granted have been spent.

At the time of my examination, the Department's records showed that 500 reports covering $5.8 million in grants were in arrears. The Department sends reminders to recipients who have not filed reports. However, if a report is not received, nothing further is done other than to note that no further grants should be paid to that organization.

Monitoring the use of grant funds could be more effective if, for example, the Department made recipients provide evidence that funds were used for the intended purpose and that project objectives were achieved. The Department should also consider when it would be appropriate to examine a recipient's accounting records. Such action might be most appropriate when required reports are not filed.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department improve its procedures for monitoring the use of Community Recreation and Cultural Program grant funds.

The Recreation, Parks and Wildlife Foundation
year ended March 31, 1991

Documenting financial assistance

The Foundation made a payment without documentation to support the type and purpose of the financial assistance, or to demonstrate that the payment was a legitimate grant from the Foundation.

During the 1990-91 year, the Foundation provided $200,000 to a particular organization. The amount was initially approved by the Members of the Foundation as an advance and recorded in the Foundation's accounting records as a loan receivable. Subsequent to the year end, the Members approved the amount as a 1990-91 grant.

The expenditure was made without the Foundation's normal controls. Requests for funding are normally required to be made in writing, and are reviewed by the Foundation's staff. Usually, supporting documents would include the terms and conditions under which the funding is provided. When this grant was made it was supported only by the approval of the Members of the Foundation in minutes of a meeting, and the cancelled cheques showing the payments.

Before completing the audit, my staff reviewed the audited financial statements of the recipient organization which disclosed the assistance as a grant.

In a management letter to the Foundation's Chairman at the conclusion of the audit, it was recommended that the Foundation ensure that appropriate documentation exists to support the financial assistance it provides.

Non-compliance with legislation

The Foundation continues to make payments to its Members which do not comply with the Recreation, Parks and Wildlife Act. An amendment to the Act which I was previously informed was imminent has not been passed.

In my last three annual reports (1989-90, page 104), I reported that payments for travelling expenses, subsistence and remuneration were made from the Foundation's funds to Members of the Foundation's Board in contravention of its Act.

In 1990-91, the Foundation paid a further $74,000 to its Members. Since I first reported this matter, the total amount paid in contravention of the Act is approximately $220,000.

In a management letter to the Foundation's Chairman at the conclusion of the audit, I again made the following recommendation:

> The Recreation, Parks and Wildlife Foundation - Non-compliance with legislation
>
> **Recommendation No. 32**
>
> It is recommended that The Recreation, Parks and Wildlife Foundation comply with the legislative requirements of the Recreation, Parks and Wildlife Act regarding the payment of expenses to its Members.

Other entities

Financial audits of the following were also completed:

Alberta Sport Council - year ended March 31, 1991
Recreation and Parks Revolving Fund - year ended March 31, 1991

Department of the Solicitor General
year ended March 31, 1991

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Other entities

Financial audits of the following were also completed:

Alberta Liquor Control Board - year ended January 1, 1991
Motor Vehicle Accident Claims Fund - year ended March 31, 1991
Victims' Programs Assistance Fund - year ended March 31, 1991
Joint Standards Directorate - year ended March 31, 1991

Department of Technology, Research and Telecommunications
year ended March 31, 1991

Evaluating and monitoring financial assistance

In my 1989-90 annual report (page 106), I commented on deficiencies in the way that the Department was monitoring the ongoing status of projects and organizations to which it provides financial assistance. I recommended that the Department improve its procedures for achieving these objectives, and extend to all new projects the computerized process for evaluating funding proposals.

I am pleased to acknowledge that my concern about the information needed to evaluate funding proposals has been eliminated. The Department now uses its computerized evaluation system and follows documented guidelines to assess the viability of all new projects. Assuming continued compliance, this should ensure that adequate information is available to evaluate funding proposals.

I am also pleased to acknowledge that my previously reported concern about monitoring has reduced considerably. Use of a database and a new policy and procedures manual has significantly improved the way that monitoring is planned and performed. All projects are now being monitored in this way and further refinements to the process are planned. Therefore, I am not repeating my previous recommendation.

Alberta Heritage Foundation for Medical Research
year ended March 31, 1991

In addition to the annual financial audit, I issued an Auditor's Report on the separate financial statements of the Medical Innovation Program and the Foundation's compliance with the terms of the agreement under which it administers the Program.

Chembiomed Ltd.
year ended March 31, 1991

Chembiomed Ltd. is a biotechnical company formed several years ago by the University of Alberta to research, develop and commercialize human diagnostic and therapeutic health care products. The Province of Alberta now owns 99% of the Company with the remaining 1% owned by the University of Alberta.

Finalization of the audit of the Company's March 31, 1991 financial statements was delayed because of uncertainties about the Company's ability to continue to operate. In November 1991, it was announced that the Company's research programs and certain research equipment will be transferred to the Alberta Research Council. The remainder of the Company's assets including intellectual property, the building and other equipment will be sold.

The 1991 audit had not been finalized as at the date of this report.

NovAtel Communications Ltd.
year ended December 31, 1990

NovAtel was re-acquired on December 31, 1990 by the Alberta Government Telephones Commission under an agreement arising out of the 1990 privatization of the telecommunications business of the Commission. Because NovAtel thus became a Provincial agency on December 31, 1990, I became the auditor for the year then ended.

The audit of year end balances indicated that a number of significant adjustments were required in order that the financial statements would present fairly the financial position of the company and the results of its operations. These adjustments were agreed with management and recorded in the accounts. The most significant adjustments concerned provisions for inventory obsolescence, future warranty costs and potential losses on financing loans. In addition, the company's method of recognizing revenue from financed systems sales was changed. Audit tests also revealed weaknesses in certain of the company's systems and procedures.

In a management letter to the Chairman of NovAtel's management committee, a number of recommendations were made concerning management information systems, inventories, warranties, capital assets and other matters. Specific recommendations were made with respect to the subsidiary finance companies and to the subsidiary companies located in the United States and Europe.

NovAtel's new management has proposed, or taken action to address my recommendations. It is understood that the Province of Alberta is seeking a purchaser for NovAtel.

Other Entities

Financial audits of the following were also completed:

Alberta Research Council - year ended March 31, 1991
The Alberta Educational Communications Corporation - year ended March 31, 1991
The Alberta Government Telephones Commission - year ended December 31, 1990

Department of Tourism
year ended March 31, 1991

In addition to the annual financial audit, my staff completed an examination of the methods used to plan the Department's marketing activities. The examination focussed on the collection of research data, the information used to reach decisions on advertising and promotional activities, and the linkage between those activities and the Department's planning and stated objectives.

Marketing activities, long-term objectives

The Department lacked a plan for achieving its publicized long-term objective.

The Department is to be commended for setting and publishing clear long-term objectives. Long-term objectives can create confidence, improve the Department's influence within the tourism industry, and help the industry to plan business developments. Strategies which define the Department's role in achieving such objectives can assist in program planning and provide managers with a clearer vision of their roles.

Unfortunately, the Department's previous attempt at long-term planning did not produce these benefits. A few years ago, it set and widely publicized for the Alberta tourism industry the objective of generating annual revenues of $10 billion by the year 2000. However, no plan was developed to show how this objective would be achieved, or the Department's role in achieving it.

As the Department is developing a new vision statement, I made the following recommendation in a management letter to the Deputy Minister of Tourism at the conclusion of the audit:

> Department of Tourism - Marketing activities, long-term objectives
>
> **Recommendation No. 33**
>
> It is recommended that the Department of Tourism identify the systems that it intends to use to help achieve long-term objectives set for the Alberta tourism industry.

I have since been informed that the Department's next long-term plan will include targets for the year 2000, and strategies for achieving them. The Department is also examining its business plans to establish measurable goals and strategies, and is providing managers with additional training in goal-setting and planning.

Marketing activities, research data

Surveys conducted to obtain Alberta tourism industry statistics are neither well-timed nor sufficiently frequent.

The Department surveys Albertans and non-residents for information on tourism levels and trends throughout the Province. The information obtained is key to the planning of promotional and development programs, and cost-sharing decisions.

At the time of the audit, the most recent survey of Albertans for which data was available was for 1976, and the most recent non-resident survey was for 1982. This meant that the data being used did not reflect the impact of recently established tourism-generators such as the Tyrrell Museum in Drumheller. Data was still being correlated for a 1990 non-resident survey and for a survey conducted the same year at a provincially-sponsored dinosaur exhibition in Tokyo.

The Department's policy was, and still is, that resident and non-resident surveys should be conducted at least every five years. The considerable costs involved, however, have precluded this.

In a management letter to the Deputy Minister of Tourism at the conclusion of the audit, it was recommended that the Department consider carefully the timing and frequency of resident and non-resident surveys.

The Department has since indicated that correlating the 1990 surveys is complete, and that the results have been put into its computer forecasting model. The Department is seeking ways of reducing the cost and increasing the frequency of surveys.

Major contracts

The Department awarded contracts without submitting them to tender. In addition, in some instances, the Department did not monitor them to ensure that expected cost-benefits were realized.

The Department awarded two contracts totalling more than $500,000 for staffing and managing the Tokyo dinosaur exhibition. Both were awarded without tendering, apparently because of time constraints and initial funding problems.

As well, the Department awarded a public relations contract which entitles the contracting agency to all of the Department's contractual advertising for a five year period. The contract was entered into on the understanding that overall costs would be lower. It allows for semi-annual reviews, but only one such review was conducted during the first three years of the contract, and that produced inconclusive results.

It is acknowledged that the Department complied with its own tendering policies by obtaining the necessary level of approval to dispense with tendering. Even so, the tendering of contracts enables the Department to demonstrate that it is spending public funds economically and without bias.

In a management letter to the Deputy Minister of Tourism at the conclusion of the audit, it was recommended that the Department award all large contracts on the basis of tenders.

The Department has since indicated that all major contracts will in future be put to tender.

Tourism Education Fund
Tourism Revolving Fund
year ended March 31, 1991

The Tourism Education Fund develops and markets standards for the Alberta tourism industry. The Tourism Revolving Fund acquires supplies and offers articles and services for tourists and the tourist industry. Its main service has been the operation of the Alberta Best Program. The primary assets of both Funds are their inventories.

Accounting for inventories

Controls exercised by the Department over the issuing and storage of the inventories of both Funds are weak. Neither Fund's inventories were physically counted at the 1990-91 fiscal year end.

The annual financial statements of both Funds were not prepared for audit until after the deadline set by the Treasury Department. Neither set of statements contained year-end inventory figures, and these and other significant adjustments had to be made by my staff before the audits could commence. There was also confusion over which inventory belonged to the Department and which belonged to the Revolving Fund.

In management letters to the Deputy Minister of Tourism at the conclusion of the audits, it was recommended that the Department take steps to ensure the proper recording, the safe custody and the appropriate accounting for the inventories of both Funds. It was also recommended that senior financial staff take a more active role in the preparation and review of the financial statements of the Revolving Fund.

The Department has since indicated that inventories will be properly recorded and controlled.

Department of Transportation and Utilities
year ended March 31, 1991

In addition to the annual financial audit, my staff completed:

- An examination of the system used for the payment of grants under the Alberta Municipal Water/Wastewater Partnership Grant Program.

- An examination of the system used to determine future equipment requirements, equipment maintenance needs and rental charges for the fleet of maintenance and construction equipment operated by the Transportation Revolving Fund.

The two recommendations which follow relate to the Alberta Municipal Water/Wastewater Partnership Grant Program.

Project cost controls

The Department does not set limits on its funding of projects under the Alberta Municipal Water/Wastewater Partnership Grant Program.

Since the inception of the grant Program in 1979, financial assistance amounting to approximately $581 million has been provided to municipalities on projects costing approximately $900 million.

The Department makes an unlimited funding commitment based on project cost estimates submitted by municipalities. This practice could result in funding project inefficiencies. The final amount paid is often significantly higher than the amount estimated. A review of six projects estimated to cost $21.6 million showed final costs 72% higher than estimated.

Although the Department does not have the opportunity to control costs directly, it could improve project cost control by establishing its funding limit for each project. In this way, the Department could be more certain that it is not subsidizing inefficiency.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department establish a funding limit for each approved project to improve cost control.

Project assessment

The Department does not determine whether projects funded under the Alberta Municipal Water/Wastewater Partnership Grant Program have met predetermined objectives.

Although the Department has defined objectives for the Partnership Grant Program as a whole, it does not set objectives for each project funded. Furthermore, the limited information on completed projects, consisting of project costs, is not compared to estimates.

The Department needs to improve the information it has to appraise the success of completed projects. It should find out the reasons for variances in project construction schedules, environmental standards, design and operating capacities, and in estimated costs. With this information, the Department would be better able to provide municipalities with advisory

services on the development of water supply and sewage treatment facilities.

On small projects, the Department makes grant payments to municipalities based on the reimbursement of project invoices. On the many higher cost projects, grant funds are advanced based on construction progress. On project completion, a statement is received from municipalities regarding the use of funds. However, the Department does not review these statements to determine if the reported project expenditures are eligible. Besides, under the terms of recent project agreements, the Department no longer requires audited financial statements.

Improved monitoring of expenditures and variances at the project level would assist the Department in controlling costs and in meeting Program objectives.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department define project objectives during the approval process and evaluate each project on its completion to establish if the objectives have been met.

Alberta Resources Railway Corporation
year ended December 31, 1990

Reservation of opinion

The Auditor's Report on the financial statements of the Alberta Resources Railway Corporation for the year ended December 31, 1990 contained a reservation of opinion as follows:

> "Under the terms of an Agreement between Canadian National Railway and the Corporation, Canadian National Railway is required to pay a tonnage rental to the Corporation based on the amount of revenue freight carried over the Corporation's railway. The Corporation relies on reports by Canadian National Railway as to the nature and amount of revenue freight to determine the tonnage rentals payable under the Agreement and has been satisfied that there is no useful and economical means available to check the accuracy of such reports. Accordingly, my verification of tonnage rental revenue of $4,242,351 was limited to the amounts reported to the Corporation and I was not able to determine whether any adjustments might be necessary to tonnage rental revenue, operating loss, assets and liabilities."

This reservation of opinion was necessary because the scope of my audit was limited. Tonnage rental revenue represents a significant portion of the Corporation's operating revenue. I was unable to determine that the tonnage rental revenue recorded in the financial statements was complete.

Other entities

Financial audits of the following were also completed:

Gas Alberta Operating Fund - year ended March 31, 1991
Natural Gas Rebates Fund - year ended March 31, 1991
Rural Electrification Revolving Fund - year ended March 31, 1991
Transportation Revolving Fund - year ended March 31, 1991

The irrigation districts are independently incorporated with no direct accountability to the Legislative Assembly. Therefore, their audited financial statements are not published in the Public Accounts of the Province.

The financial statements of the fourteen irrigation districts were audited to various year-ends within the 1990-91 fiscal year:

Aetna Irrigation District
Bow River Irrigation District
Eastern Irrigation District
Leavitt Irrigation District
Lethbridge Northern Irrigation District
Macleod Irrigation District
Magrath Irrigation District
Mountain View Irrigation District
Raymond Irrigation District
Ross Creek Irrigation District
St. Mary River Irrigation District
Taber Irrigation District
United Irrigation District
Western Irrigation District

Pursuant to section 12(b) of the Auditor General Act, the Auditor General may, with the approval of the Standing Committee on Legislative Offices, be appointed auditor of organizations other than Provincial departments, funds and agencies. For accounting periods ended within the 1990-91 fiscal year, the Auditor General acted as auditor of the following organizations:

ACCESS Charitable Foundation of Alberta
Alberta Children's Hospital Research Centre
Charles Camsell Provincial General Hospital Volunteer Association
Foothills Hospital Employees' Charity Fund
Foothills Hospital Foundation
Glenrose Rehabilitation Hospital Employee Benevolent Fund
Glenrose Rehabilitation Hospital Employee Charities Fund
Grande Prairie Regional College Foundation
Olds College Foundation
Sulphur Development Institute of Canada (SUDIC)
The Friends of University Hospitals
The Trustees of the Academic Staff Benefits Plans of The University of Alberta
University of Alberta Hospitals Staff Benevolent Fund
University of Alberta Hospitals Staff Charities Fund

Financial statements

My reports on the financial statements of:

Foothills Hospital Foundation,
Grande Prairie Regional College Foundation, and
Olds College Foundation

contained reservations of opinion because, as explained on page 110 of this report, they receive donation revenue which is not susceptible of complete audit verification.

Reporting process

The audit observations and recommendations contained in this report have undergone a rigorous process aimed at providing all concerned with opportunities to challenge or provide input.

At the conclusion of all audits, meetings (exit conferences) were held to discuss audit findings and concerns. The matters discussed depended on the nature of the audit, but included typically the form and content of financial statements, valuation provisions and allowances, the accounting policies employed, recommendations for systems improvements, and observed instances of non-compliance with legislative authorities. These meetings were attended by representatives of the Audit Office and senior financial and other management officials of the audited entities.

The main purposes of these meetings were to ensure that senior management understood the audit findings, to discuss recommendations for corrective action, and to provide opportunities for management comment and reaction before the audited financial statements and the letter to management were issued. Minutes of these meetings were prepared and circulated by the Audit Office, thereby minimizing the risk of misunderstanding concerning observations raised and action promised.

Audit observations and recommendations judged to be of concern to senior management were incorporated into management letters to the responsible deputy minister or senior executive officer. Copies of management letters were forwarded to the appropriate minister, except for those addressed to Provincial agencies referred to in section 2(5) of the Financial Administration Act.

Subsequently, the observations and recommendations considered important enough to be reported to the Legislative Assembly were selected for inclusion in this report. When determining significance, I take into account the nature and materiality of the matter relative to the individual entity and the government as a whole.

Finally, before this annual report was published it was made available to the Audit Committee, and all ministers and deputy ministers or chief executive officers were informed of observations contained in the report that relate to areas for which they are responsible.

The Provincial Treasurer on behalf of the government prepares the reports addressed to the Standing Committee on Public Accounts which contain responses to the numbered recommendations in my reports. As at the date of this report, the Provincial Treasurer had not issued responses to the numbered recommendations in my report for the 1989-90 fiscal year.

Reservations in audit reports on financial statements

Section 19(2) of the Auditor General Act requires the Auditor General to provide details in his annual report of reservations of opinion in reports issued on financial statements. This report shows that twelve such reservations were issued; viz:

Nine reservations of opinion were because the financial statements of:

- Alberta Cancer Foundation,
- Alberta Hospital Edmonton Foundation,
- Charles Camsell Provincial General Hospital Foundation,
- Foothills Hospital Foundation,
- Glenbow-Alberta Institute,
- Grande Prairie Regional College Foundation,
- Northern Alberta Children's Hospital Foundation,
- Olds College Foundation, and
- University Hospitals Foundation

include donation revenue which could not be audited for completeness in accordance with generally accepted auditing standards.

One reservation of opinion was because the financial statements of the Alberta Heritage Savings Trust Fund are not prepared in accordance with acceptable accounting principles. As discussed more fully on page 17, the practice of including deemed assets, and deemed equity represented by deemed assets, on the Heritage Fund's balance sheet is not appropriate, nor is the presentation in accordance with generally accepted accounting principles. Deemed assets are not assets of the Heritage Fund.

One reservation of opinion was because, as discussed more fully on page 30, the financial statements of Lethbridge Community College did not record a liability and a related charge for early retirement costs.

One reservation of opinion was because, as discussed more fully on page 105, the financial statements of the Alberta Resources Railway Corporation contained revenue which it was not possible to audit in accordance with generally accepted auditing standards.

In all other cases, I was able to report without reservation that the financial statements examined present fairly the financial position of the entities at March 31, 1991, or June 30, 1991, or such other accounting period ending within the year ended March 31, 1991, and the results of their operations and the changes in their financial position for the period covered by the statements, in accordance with generally accepted accounting principles or other appropriate disclosed basis of accounting.

Section 18 Report

Section 18 of the Auditor General Act requires that I report to the Legislative Assembly on the financial statements of the Crown for each fiscal year. The report is to include:

- an opinion on the financial statements, and a statement as to whether they are on a basis consistent with that of the preceding fiscal year,
- my reasons for giving any reservation of opinion, and any other comments related to my audit of the financial statements.

Opinion on the financial statements and consistency

My Auditor's Report on the financial statements of the Crown for the year ended March 31, 1991, is attached to the consolidated financial statements and reads:

To the Members of the
Legislative Assembly

I have audited the consolidated statement of reported assets, liabilities and net assets of the Province of Alberta as at March 31, 1991 and the consolidated statements of revenue and expenditure and changes in financial position for the year then ended. These financial statements are the responsibility of Treasury Department management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Province of Alberta as at March 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 1 to the consolidated financial statements. As required by the Auditor General Act, I report that, in my opinion, after giving retroactive effect to the change in the method of accounting for losses on guarantees and indemnities as explained in Note 2 to the financial statements, this basis is consistent with that applied in the preceding year.

Donald D. Salmon, FCA
Auditor General

Edmonton, Alberta
January 22, 1992

Audit of the Public Accounts

The Public Accounts of the Province are published in one volume. The volume contains the consolidated financial statements of the Province of Alberta, the financial statements of the General Revenue Fund, details of expenditures and revenues by department, and the financial statements of revolving funds, regulated funds and Provincial agencies. Some other statements and reports are included to comply with the Financial Administration Act and other statutes.

The above section 18 Auditor's Report covers the consolidated financial statements of the Province. A similar Auditor's Report was issued (see section 2 of the Public Accounts) on the financial statements of the General Revenue Fund and the detailed information of departmental expenditures and revenues (see section 3 of the Public Accounts). The volume of supplementary information containing details of expenditure by payee is not covered by these reports since it is not an integral part of the Public Accounts.

The section 18 Auditor's Report is the culmination of most of the financial audit work done each year by the Audit Office. It covers the 1990-91 audits of the various consolidated entities. These include the General Revenue Fund, the Alberta Heritage Savings Trust Fund and approximately 100 Provincial agencies and other funds.

Additionally, the Audit Office performs annual audits of the universities, colleges, technical institutes, hospitals, irrigation districts and trust funds of which the Auditor General is auditor.

Consolidation methods

The consolidated financial statements of the Province are an aggregation of most, but not all, of the entities administered and owned by the Province of Alberta. They combine the operating results and financial positions of the Province's General Revenue Fund, the Alberta Heritage Savings Trust Fund and the other entities whose financial statements are published in sections 4 through 7 of the Public Accounts.

The consolidation, however, does not include the Provincially-owned universities, colleges, technical institutes, hospitals and related funds.

The 1990-91 consolidated financial statements published by the Province report on its financial condition and results of operations. They serve as a principal means of communicating financial information to those not involved in the Province's financial administration.

The financial statements of the General Revenue Fund are sometimes inappropriately used for reviewing the Province's overall financial condition and operating results. Therefore, my Auditor's Report on the General Revenue Fund financial statements for the year ended March 31, 1991 begins as follows:

"The accompanying financial statements have been prepared to meet the requirements of the Financial Administration Act, and to present the Province's results in relation to its budget for the year ended March 31, 1991. The basis of accounting used in the preparation of these financial statements varies from generally accepted accounting principles. Significant financial activities of the government occur outside the General Revenue Fund. Most of these activities together with those of the General Revenue Fund are included in the consolidated financial statements of the Province. For this reason, the consolidated financial statements provide a more comprehensive accounting of the financial position and results of government operations."

In addition, Note 5 to the General Revenue Fund financial statements points out that the Fund does not include deficits incurred by Provincial agencies, regulated funds and commercial enterprises.

The Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants, known as PSAAC, is working to improve public sector financial reporting practices. A project yet to be undertaken by PSAAC is to consider how physical assets should be accounted for by governments and what information should be reported in their financial statements.

The consolidated financial statements show that for the 1990-91 fiscal year, the Province recorded a consolidated net expenditure, that is an annual deficit, of $1,832 million (1989-90 $2,116 million). They also show that at March 31, 1991, the consolidated net assets of the Province were $464 million (March 31, 1990 $2,296 million).

The consolidation does not include the financial statements of the Provincially-owned universities, colleges, technical institutes, and hospitals. If the recorded net assets (excluding capital assets) of these entities were included in the consolidation, the Province's net assets at March 31, 1991 would be increased by approximately $149 million. In my view, which PSAAC supports, these entities should be included in the consolidation.

In addition, most of the Province's capital assets are excluded from the consolidation. This means that the net assets at March 31, 1991 do not include the value of land (except that held for rental and resale), buildings, equipment, fixtures and furniture owned by the Province, or the renewable and non-renewable resources. Similarly, the net assets do not include the value of inventories of consumable supplies and materials. The effect of these accounting policies is that the costs of capital assets and consumable inventories are treated as expenditures in the fiscal years in which they are acquired, rather than in the years in which they are consumed or the benefits from their acquisition are realized.

Consolidated operating statistics

The Province's consolidated operating results for the three years ended March 31, 1991 were as follows:

	1988-89	1989-90	1990-91
	(Millions of Dollars)		
Revenue	$11,228	$12,119	$13,379
Expenditure	13,234	14,235	15,211
Annual deficit	(2,006)	(2,116)	(1,832)
Net assets at beginning of year	6,418	4,412	2,296
Net assets at end of year	$ 4,412	$ 2,296	$ 464

Consolidated revenue comprises:

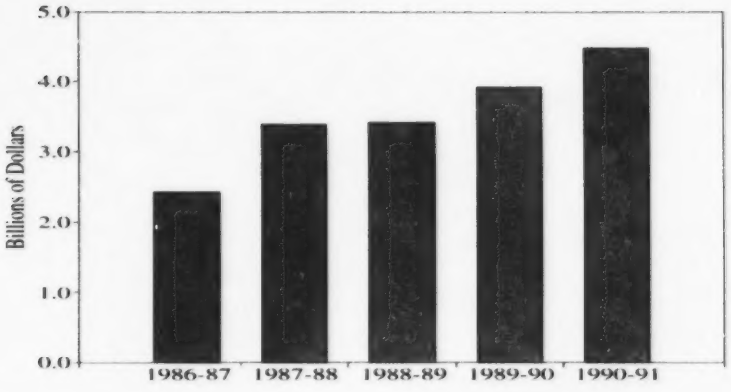
Taxes	$ 3,415	$ 3,919	$ 4,476
Non-renewable resource revenue	2,085	2,240	2,688
Payments from Government of Canada	2,080	1,887	2,302
Investment income	1,834	1,891	2,125
Fees, permits and licences	651	720	789
Net profits from commercial operations	434	391	92
Other	729	1,071	907
	$11,228	$12,119	$13,379

The following table lists the proportions in which these revenue categories contribute to consolidated revenue:

	1988-89	1989-90	1990-91
	%	%	%
Taxes	30	32	33
Non-renewable resource revenue	19	18	20
Payments from Government of Canada	19	16	17
Investment income	16	16	16
Fees, permits and licences	6	6	6
Net profits from commercial operations	4	3	1
Other	6	9	7
	100	100	100

The following charts and comments illustrate and explain some of the more significant variances and trends in the Province's consolidated revenue during the five years ended March 31, 1991:

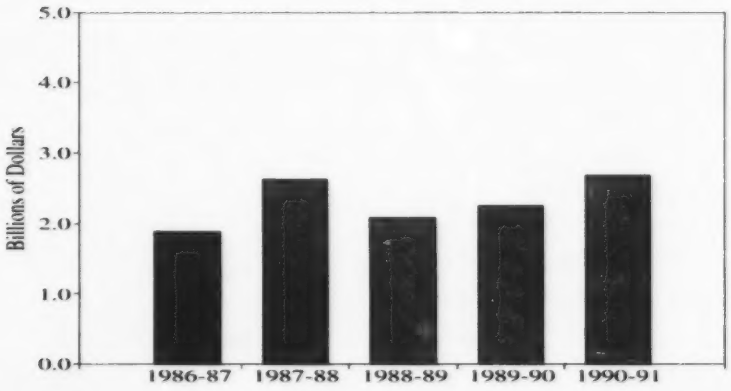
Taxes



Tax revenue increased by $557 million or 14.2% in 1990-91 compared to the previous year.

The 1990-91 increase consisted of a $260 million increase in personal income tax, a $155 million increase in corporate income tax and a $105 million increase in fuel tax. The increase in fuel tax was due to a rate increase of $0.02 per litre for certain fuels.

Non-Renewable Resource Revenue



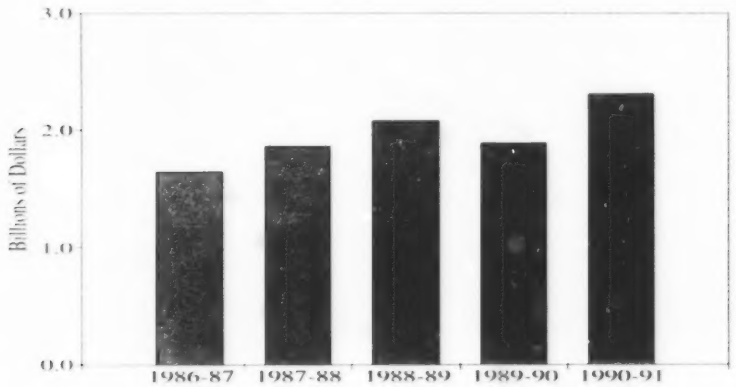
Non-renewable resource revenue increased by $448 million or 20.0% in 1990-91 compared to the previous year. The main reasons for the 1990-91 increase were:

- crude oil royalty increased by $199 million. The increase was due to an average oil price increase of $4.05 US per barrel as compared to the previous year. This increase was offset by a 1.3% reduction in production and a stronger Canadian dollar.

- natural gas and by-products royalty increased by $120 million. Increased royalties from pentanes due to increased production and price contributed to this increase.

- royalty tax credit decreased by $70 million resulting in increased non-renewable resource revenue. This increase was due to the reduction in the maximum claim per company from $3 million to $2.5 million annually.

Payments from the Government of Canada



Payments from the Government of Canada increased by $415 million or 22.0% in 1990-91 compared to the previous year. The main reasons for the 1990-91 change were:

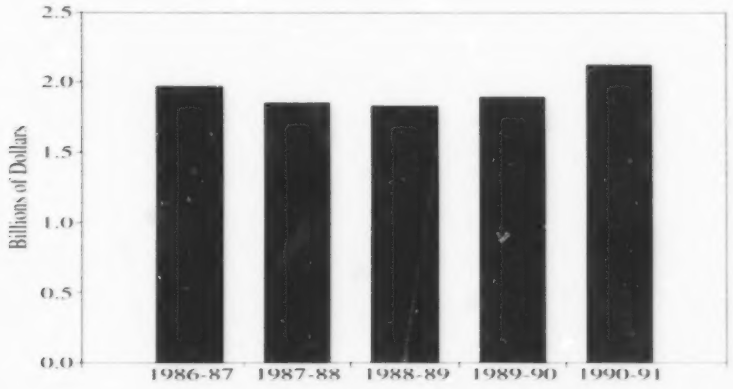
- $344 million in stabilization payments were recorded in 1991 whereas no amounts were recorded in 1990. This amount, which includes the final instalment, relates to Alberta's claim of $539 million for fiscal stabilization for the 1986-87 fiscal year.

- an $89 million increase relating to the Farm Income Assistance Program introduced in 1990-91.

- an increase of $31 million in Canada Assistance Plan payments.

- a decrease of $70 million relates to crop insurance and reinsurance. Of this amount, $45 million is the result of a reduction in the matching by the Government of Canada (from 100% to 50%) of premiums received from insured persons, and an increase (from 0% to 50%) in the matching of the administration expenses. The remaining decrease of $25 million resulted from a reduction of transfers from the Reinsurance Fund of Canada to Alberta.

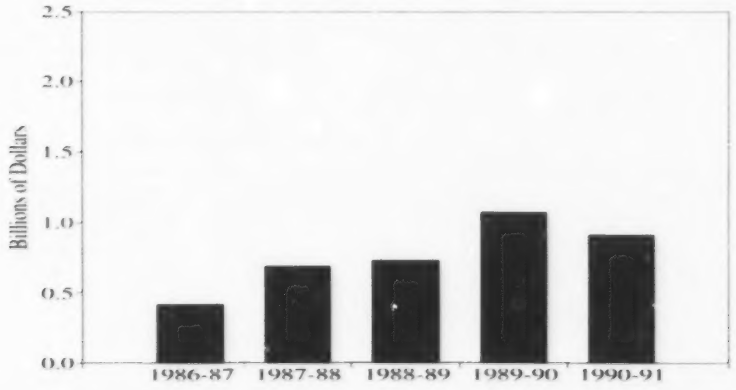
Investment Income



Investment income increased by $234 million or 12.4% in 1990-91 compared to the previous year.

The main reason for the increase was a net gain of $193 million arising from the sale of TELUS common shares.

Other



Other revenue decreased by $164 million or 15.3% in 1990-91 as compared to the previous year.

The main reason for the 1990-91 decrease was that the previous year included a transfer to the Lottery Fund of $232 million of accumulated net proceeds held by the Western Canada Lottery Corporation on behalf of the Province.

Consolidated expenditure comprises:

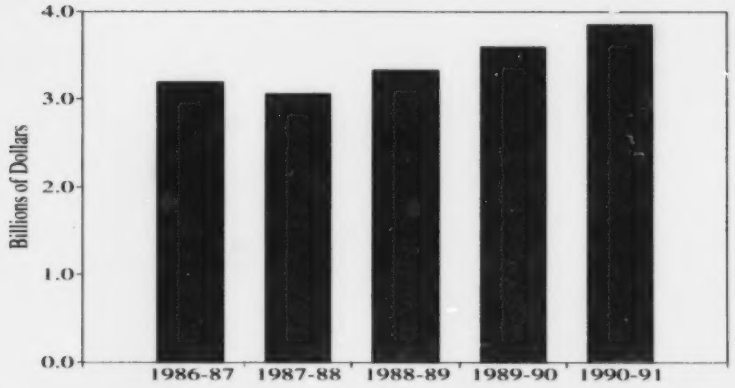
	1988-89	1989-90	1990-91
	(Millions of Dollars)		
Health	$ 3,329	$ 3,602	$ 3,861
Education	2,711	2,821	2,901
Resource conservation and economic development	1,554	1,689	1,650
Social services	1,434	1,502	1,567
General government:			
Debt servicing costs	559	850	1,061
Other	584	577	624
Transportation and utilities	1,150	1,044	984
Regional planning and development	841	840	875
Protection of persons and property	456	563	506
Environment	223	266	285
Recreation and culture	190	277	280
Valuation adjustments and provisions	94	50	379
Housing	109	154	238
	$13,234	$14,235	$15,211

The following table lists the proportions in which these expenditure categories are responsible for consolidated expenditure:

	1988-89	1989-90	1990-91
	%	%	%
Health	25	25	26
Education	20	20	19
Resource conservation and economic development	12	12	11
Social services	11	11	10
General government:			
Debt servicing costs	4	6	7
Other	5	4	4
Transportation and utilities	9	7	6
Regional planning and development	6	6	6
Protection of persons and property	3	4	3
Environment	2	2	2
Recreation and culture	1	2	2
Valuation adjustments and provisions	1	0	2
Housing	1	1	2
	100	100	100

The following charts and comments illustrate and explain some of the more significant variances and trends in the Province's consolidated expenditure during the five years ended March 31, 1991:

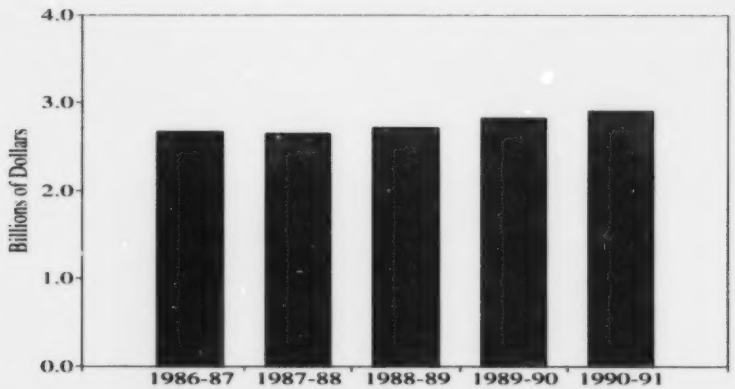
Health



Health expenditure increased by $259 million or 7.2% in 1990-91 compared to the previous year. The main reasons for the 1990-91 increase were:

- operating grants for Financial Assistance for Active Care increased by $141 million (8.3%).
- operating grants to long-term care facilities increased by $30 million (9.5%).
- expenditures of the Health Care Insurance Fund increased by $72 million (7.1%). Medical service utilization and fee increases were the major cause of this increase.

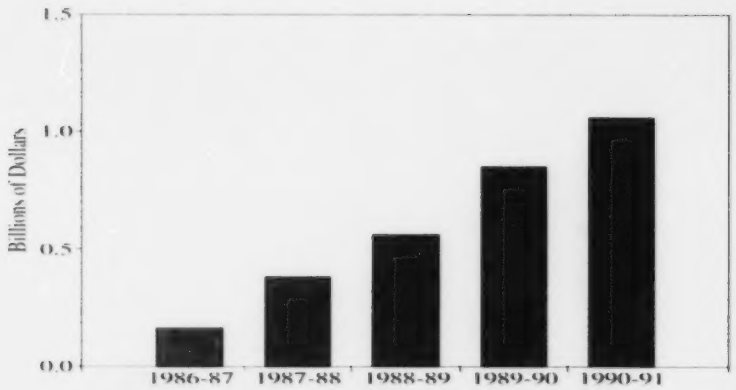
Education



Education expenditure increased by $80 million or 2.8% in 1990-91 compared to the previous year.

The main reason for the 1990-91 change was due to an increase of $78 million in financial assistance to school boards.

Debt Servicing Costs



Debt servicing costs increased $211 million or 24.8% in 1990-91 compared to the previous year.

CHARTS

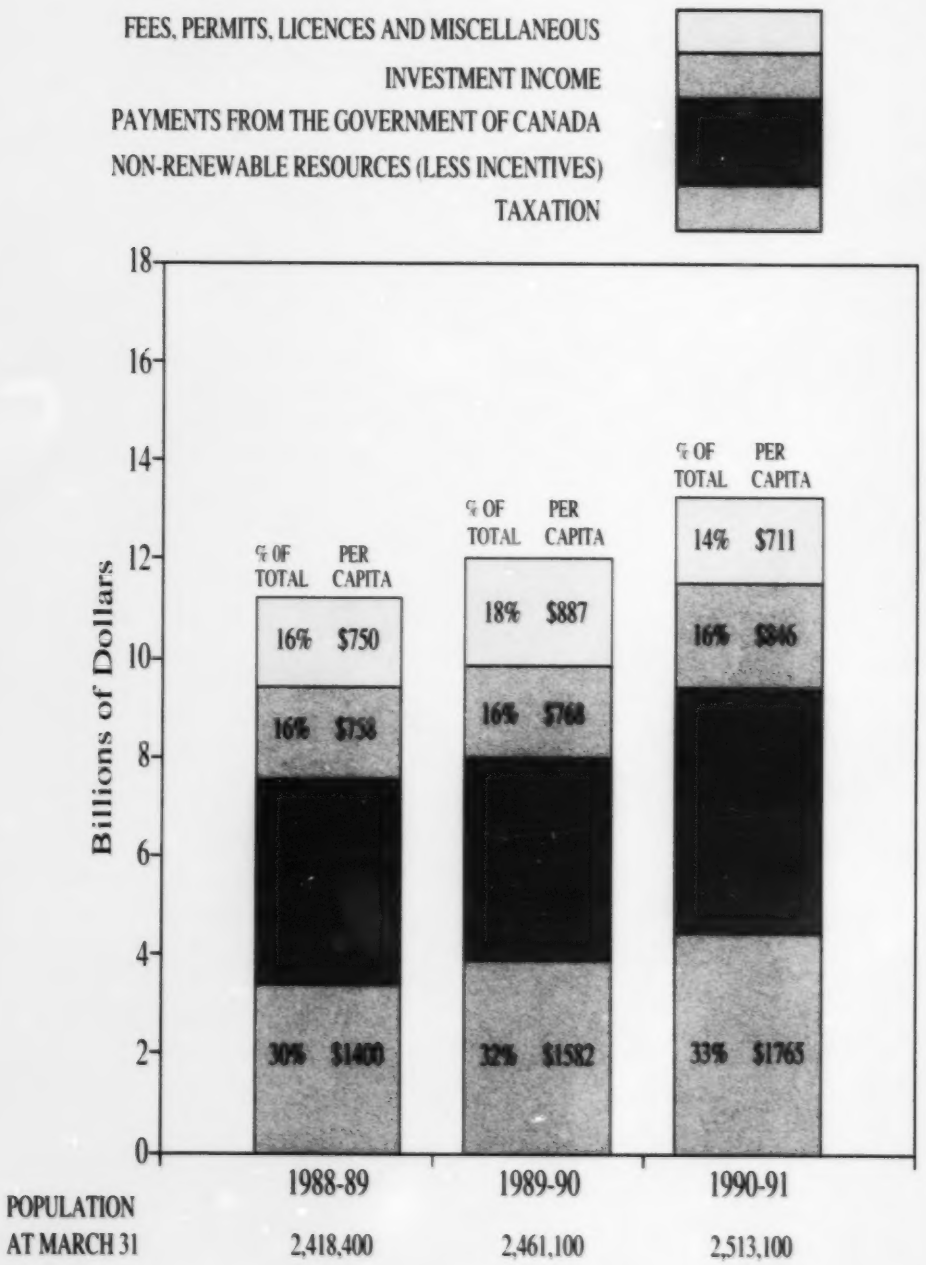
The financial information in the Public Accounts is displayed in a way that satisfies the prevailing legislation and is in accordance with acceptable government reporting practices. The following charts display some of the same financial information in an alternative and simplified manner, and are included in this report pursuant to subsection 19(3)(b) of the Auditor General Act.

In preparing the charts, some revenues and expenditures have been grouped on a generic basis rather than on the basis used in the Public Accounts. For example, in the charts, freehold mineral tax is included in non-renewable resource revenue, whereas in the Public Accounts it is included in tax revenue. Non-renewable resource revenue (net) in the charts is the revenue after deducting costs under the various incentive programs that can be said to relate to the generation of that revenue, viz. royalty tax credits and rebates, and petroleum incentive program grants. In the Public Accounts, royalty tax rebates are reflected as deductions from tax revenue, while some costs under the other incentive programs are reflected as resource conservation and economic development expenditures. Valuation adjustments and provisions for losses on guarantees and indemnities have been allocated to major groups in the charts, whereas in Public Accounts they are shown as one expenditure category.

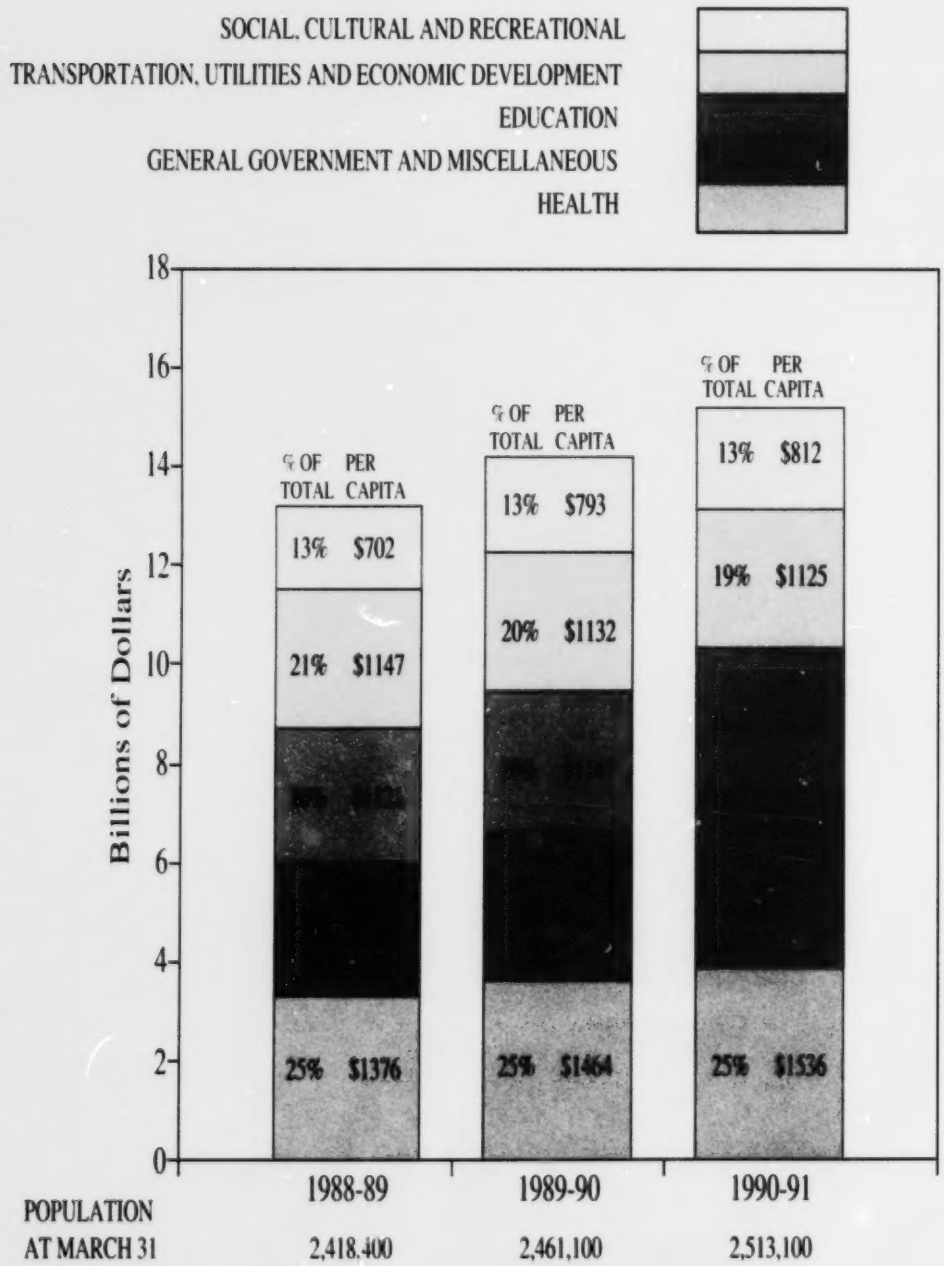
Prior years' figures have been reclassified where necessary to conform to the 1990-91 presentation.

Population figures in the charts are per the Alberta Bureau of Statistics. The figures at March 31, 1989, 1990, and 1991, are postcensal estimates.

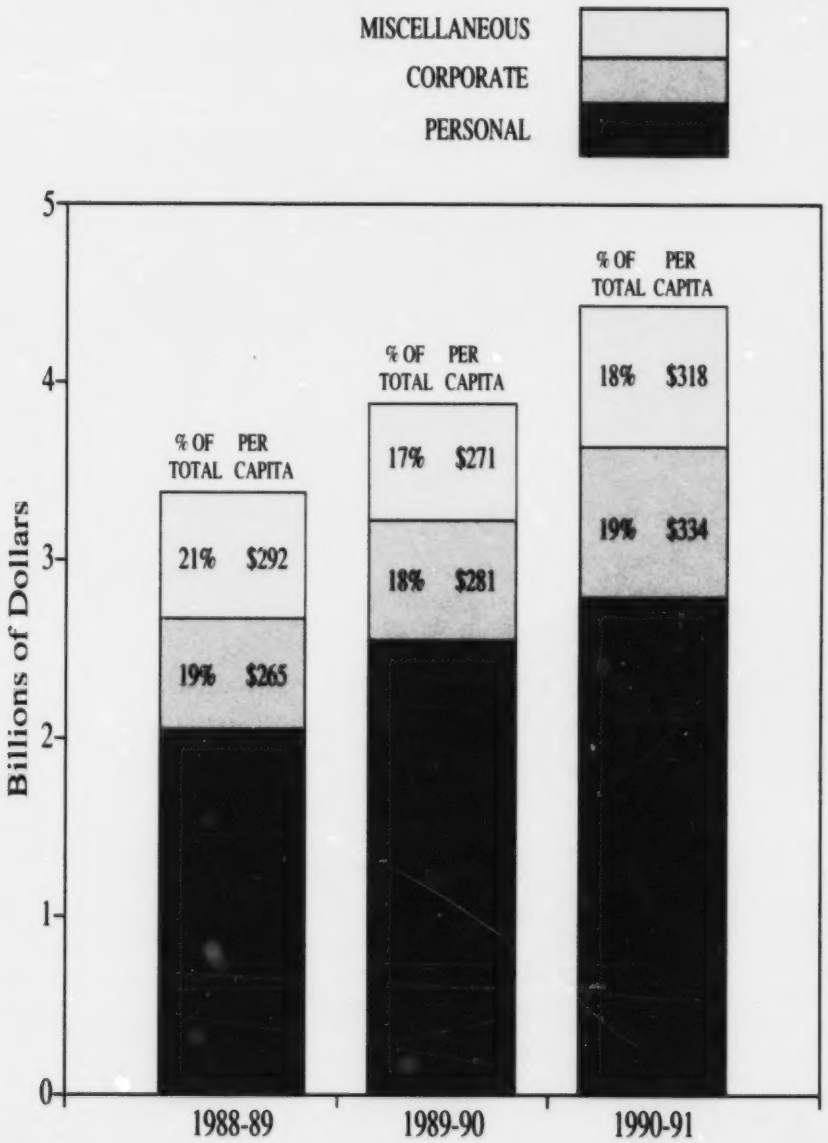
The following chart shows consolidated revenue by major groups, the percentage of such revenue to total consolidated revenue, and revenue per capita, for the past three years:



The following chart shows consolidated expenditure by major groups, the percentage of such expenditure to total consolidated expenditure, and expenditure per capita, for the past three years:



The following chart shows the sources of taxes, the percentage of each source to total taxes, and taxes per capita, for the past three years:



POPULATION AT MARCH 31	2,418,400	2,461,100	2,513,100

Legislative mandate

The Office of the Auditor General of Alberta was established in 1978 and operates in accordance with the Auditor General Act. As Auditor General, I am the auditor of all government departments, funds containing public money, and Provincial agencies.

The Act deals with my responsibilities as Auditor General by stating what I must and can report, to whom, and when.

Section 18 reports

In section 18 reports I state whether, in my opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown.

The section 18 report on the Province's 1990-91 consolidated financial statements is reproduced on page 111 of this report. Similar reports were issued on the financial statements of all entities of which I am the auditor. These reports are attached to the related financial statements, most of which are published in the Public Accounts of the Province.

Section 19 reports

This is the section 19 report for 1990-91. Section 19 reports are annual reports to the Legislative Assembly on the work of my Office. These reports include audit observations and recommendations arising from that work, together with any other matters that I believe should be brought to the attention of the Legislative Assembly.

Section 20 reports

In reports under section 20, I can report to the Legislative Assembly on any matters of importance or urgency which, in my opinion, should not be delayed until my next annual report.

No reports have been issued under section 20 of the Act since my last annual report.

Section 28 reports

Reports issued under section 28 of the Act are known as management letters. The purpose of management letters, as explained more fully on page 109 of this report, is to communicate to management recommendations for improving the financial administration of the Province.

Management letters are addressed to the deputy minister or senior executive officer of the audited entity. A copy is sent to the minister responsible for the entity except for those Provincial agencies referred to in section 2(5) of the Financial Administration Act.

Section 17 reports

Under section 17 of the Auditor General Act, the Legislative Assembly or the Executive Council may ask me to perform special duties. Whether those duties result in reports, and to whom the reports are issued, depends on the terms of the request. During the 1990-91 fiscal year, I received no requests from the Legislative Assembly or the Executive Council to perform special duties under section 17.

Types of audit

Throughout section 2 of this report, the term "financial audit" is used repeatedly. In this context, a financial audit encompasses:

- audit procedures considered necessary to support the expression of an opinion on financial statements,
- a review of action taken in response to previous audit observations and recommendations, including those reported to the Legislative Assembly, and
- an examination of transactions and activities examined for other auditing purposes to determine whether they comply with the significant financial and administrative authorities that govern them.

For some audit entities, work additional to the financial audit was completed. Such additional work involves examining systems in depth. The scope of the additional audit work undertaken in 1990-91 is identified in section 2 of this report.

All audit findings, conclusions and recommendations arising from all types of audit activity relating to 1990-91 have been reported to management.

Standing Committee on Legislative Offices

Reports issued under section 19 of the Auditor General Act are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee are:

Mr. R.J. Bogle, MLA	Chairman
Mr. S.K. Nelson, MLA	Deputy Chairman
Mr. J.W. Ady, MLA	
Mr. J. Drobot, MLA	
Mr. D. Fox, MLA	
Mrs. Y. Gagnon, MLA	
Mr. A.W. Hyland, MLA	
Mr. T. Sigurdson, MLA	
Mr. D. Tannas, MLA	

The Audit Office continues to have a constructive working relationship with the Committee. I meet with the Committee several times during the year. This allows me to keep the Committee informed of the operations of the Office and to answer questions that the Committee may have.

Audit Committee

Before being tabled, my annual reports are made available to an Audit Committee in accordance with section 24 of the Act. The members of the Audit Committee as at the date of this report, all of whom were appointed by Order in Council, are:

Mr. W.G. Stephen, FCA Chairman
Partner
Stephen Johnson, Chartered Accountants
Calgary

Mr. W.D. Grace, FCA
Partner
Price Waterhouse, Chartered Accountants
Edmonton

Mr. F.R.N. Snell, CA
Partner
Ernst & Young, Chartered Accountants
Calgary

Dr. N.E. Wagner
President
Alberta Natural Gas Company Ltd.
Calgary

Mr. R.B. Young
Vice-President and Director
Melcor Developments Ltd.
Edmonton

The Hon. A.D. Johnston, FCA
Provincial Treasurer of Alberta

I acknowledge the contribution of the Audit Committee.

Mission

My staff and I have developed the following statement to guide the work of the Audit Office:

> **The mission of the Office of the Auditor General of Alberta is to add credibility to the government's financial reporting and to improve the financial administration of the Province.**

Adding credibility

Accountability means the obligation to answer for a responsibility that has been conferred.

Audit activity supports accountability. I believe that my Office has a role to play in assisting others in their accountability relationships. Audits are not a substitute for good accountability, but they can assist the process and maintain confidence in accountability reports.

Each year, the Government of Alberta presents its expenditure budgets (estimates) for debate in the Legislative Assembly. After the estimates have been formally approved by the Legislature, the government is responsible for their implementation. In this way, the Assembly delegates authority to the government to disburse funds for approved purposes, to manage resources in an economic and efficient manner, and to evaluate the effectiveness of the programs involved.

The annual Public Accounts contain information which in part satisfies the responsibility to account to the Legislative Assembly on how the funds and resources were administered. Each set of financial statements included in the Public Accounts reflects the assertions of management as to the entity's financial position at year end, the results of its operations and the changes in its financial position.

My responsibility is to bring professional judgment and skill to the examination of these financial statements in order to provide an opinion on them. The result is an Auditor's Report designed to add credibility to the assertions of management.

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. My annual report, and the audited financial statements in the Public Accounts, are used by the Public Accounts Committee in its examination of the use and control of public resources.

Improving financial administration

Accounting, reporting, and auditing are all processes connected with accountability. In my view, however, the basic prerequisite of better accountability is better financial administration. For this reason, the Audit Office wants to help the Legislative Assembly, the government and its administrators focus on the control and management issues critical to sound financial administration.

Accordingly, the Audit Office undertakes in-depth examinations of a selection of management control and information systems each year.

The recommendations that arise from this systems auditing, and from financial statement audits, are designed to help management improve internal control, manage and control resources, promote economy and efficiency, and improve reporting. The change brought about by the successful implementation of these recommendations improves the financial administration of the Province.

During the last year, the Audit Office has continued to introduce to members of governing bodies, senior executives and administrators an approach to internal and external reporting on the effectiveness of their organizations. The approach has been developed by the Canadian Comprehensive Auditing Foundation in the belief that most members of governing bodies, including legislators, and public sector managers want better information about effectiveness.

The Foundation has proposed that managers provide information in the form of representations to help governing bodies form judgements about their organizations' effectiveness. It is felt that a management representations approach to reporting effectiveness is only feasible if there are checks and balances. Fundamental among these is the need for independent audit assurance. The Audit Office is supplying information to interested parties to enable them to make informed decisions on whether or not to pursue further the topic of effectiveness reporting.

Accounting principles, auditing standards and audit approach

The principal source of generally accepted accounting principles and auditing standards is the Handbook of the Canadian Institute of Chartered Accountants. In addition, the Public Sector Accounting and Auditing Committee of the Institute issues accounting and auditing statements. These statements apply to and guide accounting and auditing in the public sector.

Accounting principles

Generally accepted accounting principles is the term used to describe the basis on which financial statements are normally prepared. The term generally accepted accounting principles encompasses not only specific rules, practices and procedures relating to particular circumstances, but also broad principles and conventions of general application. Generally accepted accounting principles are established to produce the fair disclosure of financial information.

The General Revenue Fund and consolidated financial statements of the Province of Alberta are not prepared in accordance with generally accepted accounting principles. The basis of accounting is explained in a note to the financial statements. I have commented on the basis of accounting in section 1 of this report.

The financial statements of most of Alberta's Provincial entities are prepared in accordance with generally accepted accounting principles. In the main, the exceptions relate to the method of accounting for capital assets.

Auditing standards

The work of the Audit Office is carried out in accordance with the auditing standards and recommendations published by the Canadian Institute of Chartered Accountants and its Public Sector Accounting and Auditing Committee.

Audit approach

I believe there is a legislative expectation that the work of my Office should extend beyond seeking reportable matters only as a by-product of financial statement auditing. For this reason, annual audits are approached with three main objectives. In addition to the work designed to attest to the fair presentation of financial statements, the following work is undertaken:

- Management control and information systems are examined on a selective basis. The Audit Office attempts to maximize the usefulness of its work by identifying for examination those systems and practices essential to the successful operation of an entity. The purpose of these examinations is to promote improvements in the systems that management uses to achieve the objectives of the enterprise.

- At the beginning of each audit, significant financial and administrative authorities that impact the entity's operations are identified. During the audit, all transactions examined as part of the financial audit are also examined to determine whether or not they comply with the identified authorities.

  Any observed instances of non-compliance with the identified authorities are reported to management and, where appropriate, to the Legislative Assembly.

The scope of the Audit Office's annual audit activity as described above exceeds the minimum requirements of generally accepted auditing standards for financial audits. This enables me to report more usefully to management and, where appropriate, to the Legislative Assembly.

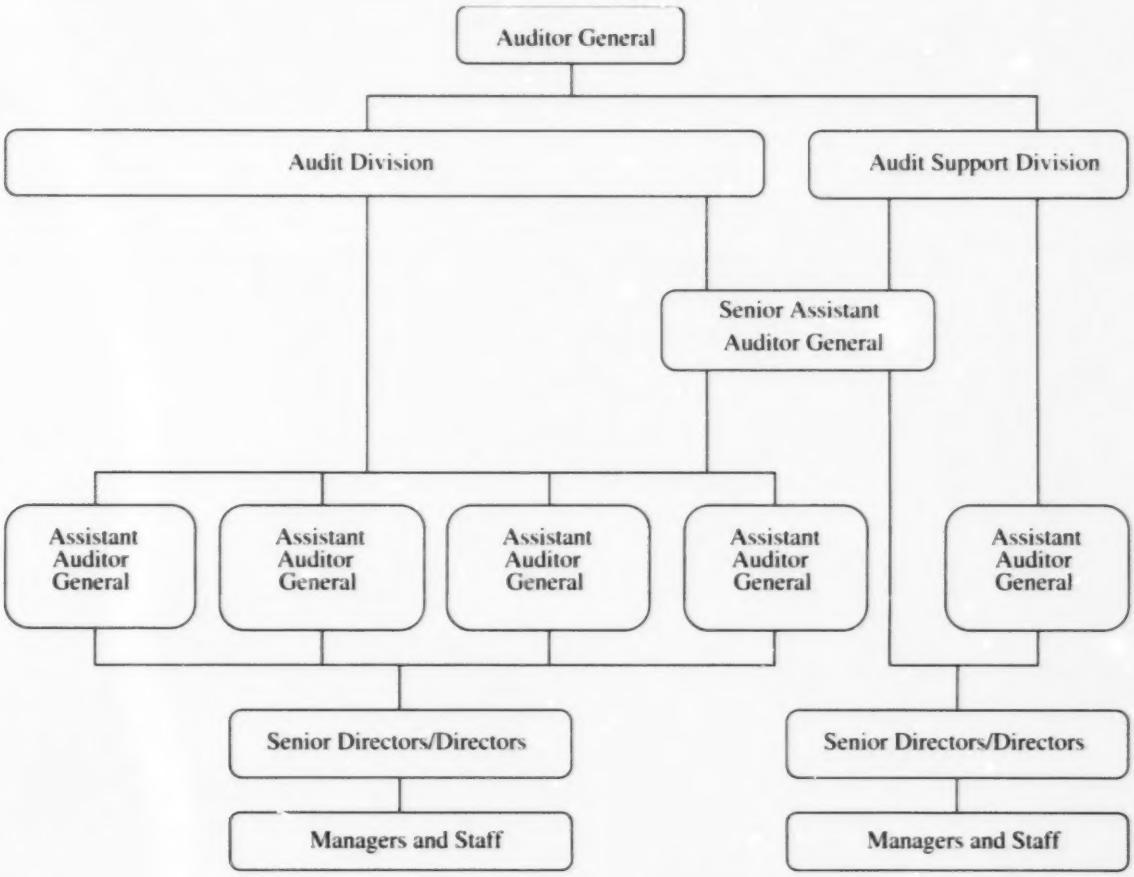
The Audit Office has long recognized the value of the computer as an audit tool. Like most large auditing offices, it makes extensive use of micro computer-based spreadsheets, word processing and other commercial software. In addition, however, it has developed several computer-based aids which assist in improving the efficiency and effectiveness of its audit work.

One such aid is PROBE, a generalized file interrogation system which enables auditors to process data files from virtually any computer system encountered. It operates on the Audit Office's own computer, thereby ensuring security over processing. An important feature of PROBE is that it is interactive and can be used by all auditors after a very short training period. PROBE continues to be an indispensable audit tool for examining computer files and systems.

Another computer-based aid to auditing developed by the Audit Office is its Audit Management System. The system is a comprehensive audit resource management system. It records and reports in a variety of ways the hours and costs budgeted and used on the Office's audits and service functions.

Organization of the Audit Office

The organization of the Audit Office is as follows:



The Management Committee

The Audit Office is administered by the Management Committee which sets and monitors the achievement of policies designed to discharge the Auditor General's legislatively prescribed responsibilities. The members of the Committee are:

Mr. D.D. Salmon, FCA	Auditor General
Mr. A.J.K. Wingate, CA	Senior Assistant Auditor General
Mr. G.C. Cuthbert, CA	Assistant Auditor General
Mr. J.H. Hug, CA	Assistant Auditor General
Mr. M.G. Morgan, CA	Assistant Auditor General
Mr. D.J. Neufeld, CA	Assistant Auditor General
Mr. N. Shandro, CA	Assistant Auditor General

The Audit Division

The Audit Division is jointly administered by the Senior Assistant Auditor General and four Assistant Auditors General.

Each Assistant Auditor General, with a team of Senior Directors, Directors, Managers and Senior Auditors is responsible for a portfolio of audits. The team is responsible for planning and executing its audits. The work is done with the assistance of Student Auditors who are pursuing professional accounting designations.

The Audit Support Division

The Audit Support Division is jointly administered by the Senior Assistant Auditor General and an Assistant Auditor General.

The Audit Support Division provides a variety of administrative and audit-related services to the Audit Division and to the Office. These include co-ordination of human resource management and professional development, accounting and administration, professional practices, legal advice, computer operations and system development, security, and co-ordination of the preparation of the Auditor General's annual reports.

Agents

The Audit Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as my agent under section 10 of the Auditor General Act, and their contributions in supplementing the staff resources of the Audit Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 1991 were as follows:

Arthur Andersen & Co.
Bevan, Halbert & Ginet
Collins Barrow
Coopers & Lybrand
Cuthbertson Sandall & Partners
Dawson, Berezan & Partners
Deloitte & Touche
Doane Raymond Pannell
Ernst & Young
Hudson & Company
Johnston, Morrison, Hunter & Co.
Ladell Perry
Matthew Craig Davies
Mills Unrau Gerlock
Peat Marwick Thorne
Price Waterhouse
Young, Parkyn, McNab & Co.
Watkinson, Hanhart, Duda, Dorchak

Audit Office financial statement

The audited financial statement of the Office of the Auditor General is reproduced in section 8 of the Public Accounts of the Province, in accordance with section 30(4) of the Auditor General Act.

SCHEDULE OF ESTIMATED ASSETS

FOR FIVE PROVINCIAL PENSION PLANS

MARCH 31, 1990 AND 1981

Auditor's Report

Schedule of Estimated Assets for Five Provincial Pension Plans

Notes to the Schedule

AUDITOR'S REPORT

To the Provincial Treasurer

The accompanying schedule of estimated assets for five Provincial pension plans as at March 31, 1990 and 1981 has been prepared by management using certain assumptions as described in the basis of estimates in Note 2 to the schedule. I have examined the support provided by management for the assumptions, and the preparation and presentation of this schedule. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, the basis of estimates is suitably supported and is reasonable for estimating the assets of the five plans as at March 31, 1990 and 1981, and the estimated assets reflect this basis.

Since this schedule is based on a number of management assumptions, including an assumed rate of return, a change in the assumptions would cause the estimated assets of the five plans to be different, and the differences could be material. Accordingly, I express no opinion as to whether the asset estimates in the schedule would have been achieved if the five plans had been accounted for as separate funds from their inception.

As disclosed in Note 3 to the schedule, the actual net assets of the Pension Fund at March 31, 1990 as shown in the audited Public Accounts 1989-90 (Page 5.56) amounted to $5,038 million (market value $5,242 million).

Donald D. Salmon, FCA
Auditor General

Edmonton, Alberta
October 17, 1991

SCHEDULE OF ESTIMATED ASSETS

FOR FIVE PROVINCIAL PENSION PLANS

MARCH 31, 1990 AND 1981

Pension Plan	Estimated Contributions, Net of Benefits Paid (Note 2(a))		Estimated Investment Income (Note 2(b))		Estimated Assets	
	1990	1981	1990	1981	1990	1981
	$ millions		$ millions		$ millions	
Local Authorities	$1,041	$329	$1,414	$ 99	$2,455	$428
Public Service	395	213	863	103	1,258	316
Public Service Management	154	90	297	13	451	103
Universities Academic	252	107	318	(2)	570	105
Special Forces	118	39	147	1	265	40
Totals	$1,960	$778	$3,039	$214	$4,999	$992

The accompanying notes are part of this schedule.

NOTES TO THE SCHEDULE OF ESTIMATED ASSETS

FOR FIVE PROVINCIAL PENSION PLANS

MARCH 31, 1990 AND 1981

Note 1 Purpose of Schedule

This schedule provides an estimate of the assets for each of five Provincial pension plans. The actual net assets of the Pension Fund included in Public Accounts are not accounted for by individual pension plan.

Note 2 Basis of Estimates

The schedule of estimated assets for five Provincial pension plans was prepared on the following basis:

(a) Estimated Contributions, Net of Benefits Paid

- This includes actual contributions from employers and employees, net of benefits paid, from the inception of each plan. These amounts were obtained from the audited Public Accounts. Transfers of contributions between pension plans were based on information contained in the annual reports of the Pension Boards.

- Since the Alberta Government did not make contributions for its employees prior to March 31, 1981, assumed employer contributions were attributed to the Public Service Pension Plan, in the amount of $174 million, on an equal basis and to the Public Service Management Pension Plan, in the amount of $61 million, on a basis of 1.8 times employee contributions.

- Contributions, net of benefits paid, were assumed to flow into a separate fund for each pension plan at an even rate throughout the year.

(b) Estimated Investment Income

- Since no interest was credited to the net contributions prior to March 31, 1981, an assumed rate of return was used. The assumed rate of return is based on a portfolio of long-term provincial bonds as published by ScotiaMcLeod. Management chose this rate of return to best simulate the total annual return on funds loaned to provincial governments in the capital markets prior to March 31, 1981. After March 31, 1981, the rate of return used is the actual rate of return earned by the Pension Fund.

Note 3 Pension Fund

The net assets of the Pension Fund at March 31, 1990 as shown in the audited Public Accounts 1989-90 (Page 5.56) amounted to $5,038 million (market value $5,242 million). The Pension Fund was established in 1981 with a transfer of $1,100 million from the General Revenue Fund.

AUDITOR GENERAL ACT

CHAPTER A-49

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HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Definitions

1 In this Act,

(a) "Auditor General" means the Auditor General of Alberta;

(b) "Crown-controlled organization" means

(i) a corporation that is incorporated by or under an Act of the Legislature, other than a local or private Act, one or more but less than a majority of whose members or directors are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof, or

(ii) an unincorporated board, commission, council or other body that is not a department or part of a department, one or more but less than a majority of whose members are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof,

that is responsible for the administration of public money or assets owned by the Crown, and includes a corporation, more than 50% but less than 100% of whose issued voting shares are owned by the Crown or held in trust for the Crown or are partly owned by the Crown and partly held in trust for the Crown;

(c) "department" means a department as defined in section 1 of the *Financial Administration Act* and includes

(i) the Legislative Assembly Office,

(ii) the Ombudsman and the staff of the Office of the Ombudsman, and

(iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer;

(d) "employee of the Office of the Auditor General" includes a person engaged on a fee basis by the Auditor General;

(e) "public money" means public money as defined in the *Financial Administration Act* and includes money forming part of the Treasury Branches Deposits Fund;

(f) "regulated fund" means a regulated fund as defined in the *Financial Administration Act* and includes the Treasury Branches Deposits Fund;

(g) "Select Standing Committee" means the Select Standing Committee on Legislative Offices;

(h) "voting share" means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57

Meaning of other words

2 Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of Auditor General

3(1) There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of Auditor General

4 The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

RSA 1980 cA-49 s4

Suspension or removal from office

5 On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.

RSA 1980 cA-49 s5

Vacancy in office

6(1) If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.

(2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.

RSA 1980 cA-49 s6

Salary and benefits

7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.

(2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers.

RSA 1980 cA-49 s7

Acting Auditor General

8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.

(2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).

(3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.

RSA 1980 cA-49 s8

Office of the Auditor General

9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the *Public Service Act* as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.

(2) On the recommendations of the Auditor General, the Select Standing Committee may order that

(a) any regulation, order or directive made under the *Financial Administration Act*, or

(b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the *Public Service Act*,

be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

(3) An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

(4) The *Regulations Act* does not apply to orders made under subsection (2).

(5) The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

RSA cA-49 s9;1983 cL-10.1 s57

Engagement of services on fee basis

10 The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

RSA 1980 cA-49 s10

Delegation of power or duty

11(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

(a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or

(b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

RSA 1980 cA-49 s11

Auditor General as auditor

12 The Auditor General

(a) is the auditor of every department, regulated fund, revolving fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12

Financing of operations

13(1) The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

(a) reports that the Auditor General has certified that in the public interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and

(b) reports that either

(i) there is no supply vote under which an expenditure with respect to that matter may be made, or

(ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act*, added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General may charge fees

14 The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

RSA 1980 cA-49 s14

Access to information

15(1) The Auditor General is entitled to access at all reasonable times to

(a) the records of a department, fund administrator or Provincial agency, and

(b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency,

for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explanations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

RSA 1980 cA-49 s15

Right to information

16(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

(a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,

(b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

(c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

RSA 1980 cA-49 s16

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

1977 c56 s17

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and as to whether they are on a basis consistent with that of the preceding fiscal year,

(b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to his audit of the financial statements that he considers appropriate.

1977 c56 s18

Annual report of Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of his office, and

(b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) The annual report shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

1977 c56 s19

Special reports

20(1) The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

1977 c56 s20

Establishment of Audit Committee

21(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

1977 c56 s21

Meetings of Audit Committee

22(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

(2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

1977 c56 s22

Information re scope and results of audit

23 The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.

1977 c56 s23

Availability of reports

24 An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.

1977 c56 s24

When report not required

25 In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

1977 c56 s25

Supplementary information

26 The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.

1977 c56 s26

Audit working papers

27 Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.

1977 c56 s27

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.

1977 c56 s28

Advice on organization, systems, etc.

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

1977 c56 s29

Annual audit

30(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.

(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.

(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.

1977 c56 s30

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